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Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

BCTEL

TELUS™

NOTICES OF SPECIAL MEETINGS AND JOINT MANAGEMENT PROXY CIRCULAR WITH RESPECT TO AN ARRANGEMENT INVOLVING

BC TELECOM INC.

— and —

TELUS CORPORATION

Notice to BC TELECOM Shareholders of Petition to the Supreme Court of British Columbia for Approval of an Arrangement under the *Canada Business Corporations Act*

— and —

Notice to TELUS Shareholders of Petition to the Court of Queen's Bench of Alberta for Approval of an Arrangement under the *Business Corporations Act* (Alberta)

December 8, 1998

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December 8, 1998

Dear Shareholders of BC TELECOM Inc. and TELUS Corporation:

We are pleased to provide you with notice of a special meeting of the holders of common shares and options of BC TELECOM Inc. to be held at the Park Ballroom, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia on January 21, 1999 at 10:00 a.m. (Pacific Standard Time) and notice of a special meeting of the holders of common shares and options of TELUS Corporation to be held at the Winspear Centre, #4 Sir Winston Churchill Square, 9720 - 102nd Avenue, Edmonton, Alberta on January 19, 1999 at 10:30 a.m. (Mountain Standard Time), both of which are for the purpose of considering the proposed merger of equals of BC TELECOM Inc. and TELUS Corporation.

The formal Notices of Meetings and Joint Management Proxy Circular of BC TELECOM and TELUS accompany this letter and contain a detailed description of the proposed merger as well as outline the actions to be taken at the meetings. Specifically, the shareholders and optionholders of each company will be asked to vote on a special resolution to approve a proposed Plan of Arrangement whereby BC TELECOM and TELUS will merge and form a new public company, BCT.TELUS Communications Inc. We urge you to give this material your careful consideration and suggest you consult your financial, tax or other professional advisors.

As we believe the proposed merger to be the most significant development in our respective corporate histories, please ensure that your shares are represented at your meeting whether or not you are able to attend. Regardless of the number of shares you own, your vote is important.

Why are the Boards of Directors recommending that you vote in favour of the Arrangement? After careful consideration, the Boards of Directors of BC TELECOM and TELUS concluded that the Arrangement is in the best interests of BC TELECOM and TELUS, respectively, and are recommending that their respective shareholders vote **FOR** the special resolutions approving the Arrangement. The Arrangement brings together Canada's second and third largest domestic telecommunications companies with complementary businesses, objectives and growth strategies. BC TELECOM and TELUS believe that their combined management, technical, operating and financial expertise will enhance the position of BCT.TELUS in the telecommunications industry. The Arrangement and related transactions will provide BCT.TELUS with:

- A new platform for national growth,
- Significant synergies from consolidation,
- A significant increase in scale and scope, providing a strong financial capacity to support future growth opportunities, and
- An alliance with GTE Corporation, a telecommunications leader in the provision of voice, data and internet services.

In making their recommendations your respective Boards of Directors considered a variety of matters, including the advice of their independent financial advisors. Complete copies of the opinions of the financial advisors are included as appendices to the Joint Management Proxy Circular.

What is the effect of the Arrangement on your BC TELECOM shareholdings? Under the terms of the Arrangement, 75% of your BC TELECOM common shares will be exchanged for BCT.TELUS common shares and 25% of your BC TELECOM common shares will be exchanged for BCT.TELUS non-voting shares. In each case your share exchange will be on a one for one basis. Details of the share exchange mechanics are included in the accompanying Joint Management Proxy Circular.

What is the effect of the Arrangement on your TELUS shareholdings? Under the terms of the Arrangement, 75% of your TELUS common shares will be exchanged for BCT.TELUS common shares and 25% of your TELUS common shares will be exchanged for BCT.TELUS non-voting shares. In each case your

share exchange will be on a one for 0.7773 basis. Details of the share exchange mechanics are included in the accompanying Joint Management Proxy Circular.

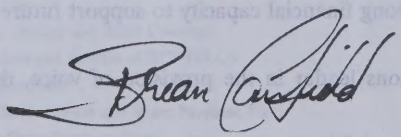
What must you complete to vote? If you do not plan to be present at your shareholder meeting, please take the time now to sign, date and return the enclosed proxy form which applies to you. BC TELECOM shareholders (including BC TELECOM employees who hold BC TELECOM shares) should complete, execute and return the **BLUE** form of proxy. TELUS shareholders should complete, execute and return the **GREEN** form of proxy and TELUS employees who hold TELUS employee shares should complete, execute and return the **YELLOW** voting instruction card. If your shares are held through your broker or an agent of that broker, your package, including the form of proxy, would have been sent directly from them or from the Independent Investor Communication Corporation ("IICC") which the majority of brokers use for mailing purposes. Please complete, execute and return this form of proxy (the colour of this proxy is **WHITE — if mailed by IICC), in advance of the meeting**, according to the instructions included. Please carefully review the instructions relating to completion, execution and delivery of your form of proxy that accompanies the Joint Management Proxy Circular.

How do you exchange your share certificates? A letter of transmittal is enclosed in your package. This letter of transmittal should be completed and returned with your BC TELECOM or TELUS share certificates. We urge you to complete the letter of transmittal and deliver it with your share certificates to the Depository (Montreal Trust Company of Canada) at one of the addresses described in the letter of transmittal no later than 5:00 p.m. (local time) on January 18, 1999. An envelope has been provided for your convenience. Upon the Arrangement becoming effective you will receive BCT.TELUS share certificates. **Please review the instructions in the letter of transmittal relating to completion, execution and delivery. Shareholders who hold their common shares through a broker, or other person, or who otherwise do not hold their common shares in their own name, should contact that broker or other person for instructions.**

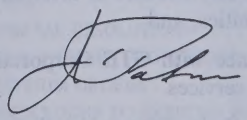
What if you have questions? If you have questions concerning the completion of your proxy and letter of transmittal or require information on your registered shareholdings, please call Montreal Trust Company of Canada as follows: BC TELECOM shareholders in North America call 1-800-380-7757 and TELUS shareholders in North America call 1-800-558-0046. If you have questions regarding any other matters outlined in the accompanying Joint Management Proxy Circular, please call Investor Relations at BC TELECOM at 604-432-2413 in the Vancouver area or outside of North America, and 1-888-228-4636 elsewhere in North America, or call Investor Relations at TELUS at 403-498-7311 in the Edmonton area or outside of North America, and 1-800-667-4871 elsewhere in North America.

Thank you for your continued interest in and support for the success of our companies as we position for the challenges and opportunities of the next millennium.

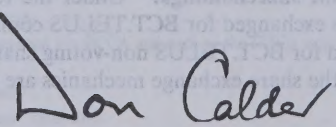
Yours truly,



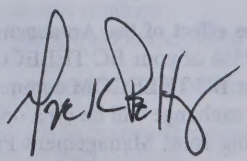
BRIAN A. CANFIELD
Chairman, BC TELECOM Inc.



JAMES S. PALMER
Chairman, TELUS Corporation



DONALD A. CALDER
President and Chief
Executive Officer
BC TELECOM Inc.



GEORGE K. PETTY
President and Chief
Executive Officer
TELUS Corporation

BC TELECOM Inc.

NOTICE OF SPECIAL MEETING

NOTICE is hereby given that a special meeting (the "Meeting") of the holders of common shares (the "Common Shares") and options (the "Options") to acquire Common Shares of BC TELECOM Inc. ("BC TELECOM") will be held at the Park Ballroom, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, on January 21, 1999 at 10:00 a.m. (Pacific Standard Time) for the following purposes, which are described in more detail in the Joint Management Proxy Circular of BC TELECOM and TELUS Corporation (the "Joint Circular"), namely:

1. to consider, pursuant to an order (the "Interim Order") of the Supreme Court of British Columbia dated December 7, 1998, and, if deemed advisable, to pass a special resolution approving a proposed arrangement (the "Arrangement") under Section 192 of the *Canada Business Corporations Act* involving BC TELECOM and its holders of Common Shares and Options and TELUS Corporation and its holders of common shares and options to acquire common shares, BCT.TELUS Communications Inc. and 3481646 Canada Inc., the full text of which resolution is set out in Appendix A to the Joint Circular; and

2. to consider such other matters as may properly come before the Meeting.

Pursuant to the terms of the Interim Order, holders of Common Shares and Options have the right to dissent in respect of the Arrangement and be paid the fair value of their Common Shares and Options, subject to certain conditions. The right of dissent is described in the Joint Circular.

The record date for the determination of holders of Common Shares and Options entitled to receive notice of, and to attend and vote at, the Meeting will be the close of business on December 9, 1998. Any transferee or person acquiring Common Shares after such date may, on proof of ownership of Common Shares, demand not later than ten days before the Meeting that his or her name be included in the list of persons entitled to attend and vote at the Meeting.

By Order of the Board of Directors

Dorothy E Byrne

Burnaby, British Columbia
December 8, 1998

DOROTHY E. BYRNE
Corporate Secretary

TO: Holders of Common Shares and Options

If you are unable to attend the Meeting in person, please complete and sign the enclosed form of proxy (BLUE) and forward it in the enclosed postage prepaid self-addressed envelope, or otherwise deliver it, to Montreal Trust Company of Canada at 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, to reach the addressee no later than 5:00 p.m. (Pacific Standard Time) on January 19, 1999 or, if the Meeting is adjourned, by the close of business on the last business day prior to the date on which the Meeting is reconvened.

Dorothy E. Byrne
Corporate Secretary

Burnaby, British Columbia
December 8, 1998

TO: Holders of Common Shares and Options

If you are unable to attend the Meeting in person, please complete and sign the enclosed form of proxy (BLUE) and forward it in the enclosed prepaid self-addressed envelope, or otherwise deliver it, to Montreal Trust Company of Canada at 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, to reach the addressee no later than 3:00 p.m. (Pacific Standard Time) on January 12, 1999 or, if the Meeting is adjourned, by the close of business on the last business day prior to the date on which the Meeting is reconvened.

TELUS Corporation

NOTICE OF SPECIAL MEETING

NOTICE is hereby given that a special meeting (the "Meeting") of the holders of common shares (the "Common Shares") and options (the "Options") to acquire Common Shares of TELUS Corporation ("TELUS") will be held at the Winspear Centre, #4 Sir Winston Churchill Square, 9720 - 102nd Avenue, Edmonton, Alberta, on January 19, 1999 at 10:30 a.m. (Mountain Standard Time) for the following purposes, which are described in more detail in the Joint Management Proxy Circular of TELUS and BC TELECOM Inc. (the "Joint Circular"), namely:

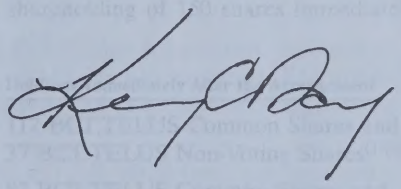
1. to consider, pursuant to an order (the "Interim Order") of the Court of Queen's Bench of Alberta dated December 7, 1998, and, if deemed advisable, to pass a special resolution approving a proposed arrangement (the "Arrangement") under Section 186 of the *Business Corporations Act* (Alberta) involving TELUS and its holders of Common Shares and Options and BC TELECOM Inc. and its holders of common shares and options to acquire common shares, BCT.TELUS Communications Inc. and 3481646 Canada Inc., the full text of which resolution is set out in Appendix A to the Joint Circular; and

2. to consider such other matters as may properly come before the Meeting.

Pursuant to the terms of the Interim Order, holders of Common Shares and Options have the right to dissent in respect of the Arrangement and be paid the fair value of their Common Shares and Options, subject to certain conditions. The right of dissent is described in the Joint Circular.

The record date for the determination of holders of Common Shares and Options entitled to receive notice of, and to attend and vote at, the Meeting will be the close of business on December 9, 1998. Any transferee or person acquiring Common Shares after such date may, on proof of ownership of Common Shares, demand not later than ten days before the Meeting that his or her name be included in the list of persons entitled to attend and vote at the Meeting.

By Order of the Board of Directors



Edmonton, Alberta
December 8, 1998

KERRY C. DAY
Corporate Secretary

TO: Holders of Common Shares and Options

If you are unable to attend the Meeting in person, please complete and sign the enclosed form of proxy (GREEN) and forward it in the enclosed postage prepaid self-addressed envelope, or otherwise deliver it, to Montreal Trust Company of Canada at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, to reach the addressee no later than 5:00 p.m. (Mountain Standard Time) on January 18, 1999 or, if the Meeting is adjourned, by the close of business on the last business day prior to the date on which the Meeting is reconvened.

SUMMARY

The following is a summary of certain information contained in this Joint Circular and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Joint Circular. All financial information relating to the entity resulting from the merger of equals of BC TELECOM and TELUS is pro forma information based on the pro forma financial statements of BCT.TELUS contained herein. Unless the context otherwise requires, capitalized terms used in this Joint Circular without definition are defined in the "Glossary of Terms" which is located immediately following this summary.

The Arrangement

BC TELECOM and TELUS have agreed, subject to the satisfaction of certain conditions precedent, to a merger of equals by way of the Arrangement pursuant to which they will form a new public company, BCT.TELUS Communications Inc. BCT.TELUS will be the second largest domestic Canadian telecommunications provider with the financial capacity and other capabilities to enable it to compete in all of the major Canadian markets as a provider of communication services.

The Arrangement will be effected by way of a court approved Plan of Arrangement pursuant to the Arrangement Agreement. BC TELECOM Shareholders are being asked to approve the BC TELECOM Special Resolution and TELUS Shareholders are being asked to approve the TELUS Special Resolution.

The Effect of the Arrangement on Shareholdings

Under the Arrangement, the following share exchanges will occur for each Shareholder: (i) 75% of the TELUS Common Shares will be exchanged for BCT.TELUS Common Shares on the basis of the TELUS Exchange Ratio (one to 0.7773) and 25% of the TELUS Common Shares will be exchanged for BCT.TELUS Non-Voting Shares on the basis of the TELUS Exchange Ratio (one to 0.7773); and (ii) 75% of the BC TELECOM Common Shares will be exchanged for BCT.TELUS Common Shares on the basis of the BC TELECOM Exchange Ratio (one to one) and 25% of the BC TELECOM Common Shares will be exchanged for BCT.TELUS Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio (one to one). Except for participants in certain plans, no fractional BCT.TELUS Shares will be issued. For a description of the procedure for exchanging BC TELECOM Common Shares and TELUS Common Shares, see "Procedures for Exchange of Share Certificates".

The effect of the Arrangement on the holdings of BC TELECOM Common Shareholders and TELUS Common Shareholders is illustrated below based on a shareholding of 150 shares immediately prior to the Arrangement.

Holdings Immediately Prior to the Arrangement	Holdings Immediately After the Arrangement
150 BC TELECOM Common Shares	112 BCT.TELUS Common Shares and 37 BCT.TELUS Non-Voting Shares[1][3]
150 TELUS Common Shares	87 BCT.TELUS Common Shares and 29 BCT.TELUS Non-Voting Shares[2][3]

Notes:

(1) A holder of 150 BC TELECOM Common Shares would be entitled to 112.5 BCT.TELUS Common Shares but will receive cash in lieu of the 0.5 BCT.TELUS Common Shares fractional amount and would be entitled to 37.50 BCT.TELUS Non-Voting Shares but will receive cash in lieu of the 0.5 BCT.TELUS Non-Voting Shares fractional amount.

(2) A holder of 150 TELUS Common Shares would be entitled to 87.44625 BCT.TELUS Common Shares but will receive cash in lieu of the 0.44625 BCT.TELUS Common Shares fractional amount and would be entitled to 29.14875 BCT.TELUS Non-Voting Shares but will receive cash in lieu of the 0.14875 BCT.TELUS Non-Voting Shares fractional amount.

(3) The amount of cash (rounded to the nearest whole cent) will equal the product obtained when such fractions are multiplied by the weighted average trading price for BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares, as the case may be, on the TSE for the first three trading days on which the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares are traded on an issued basis following the Effective Date.

For the effect of the Arrangement on the BC TELECOM Optionholders and TELUS Optionholders, see "The Effect of the Arrangement on Shareholdings — Option Exchange".

Benefits of the Transaction

The Arrangement, together with the actions and agreements contemplated therein, combines the complementary strengths of Canada's second and third largest domestic telecommunications companies, providing BCT.TELUS with:

- A new platform for national growth;
- Significant synergies from consolidation;
- A significant increase in scale and scope, providing strong financial capacity to support future growth opportunities; and
- An alliance with GTE, a telecommunications leader in the provision of voice, data and internet services.

See "Benefits of the Transaction".

Recommendations of the Boards of Directors

BC TELECOM

The BC TELECOM Board of Directors has unanimously concluded that the terms of the Arrangement are in the best interests of BC TELECOM and are fair to its shareholders as a whole and to the minority shareholders. The BC TELECOM Board of Directors (other than those directors who declared their interest in the Heads of Agreement with GTE and abstained from voting to approve the Heads of Agreement) has also unanimously concluded that the terms of the Heads of Agreement are in the best interests of BC TELECOM and are fair to its shareholders as a whole and to the minority shareholders. **The Board of Directors of BC TELECOM unanimously recommends that BC TELECOM Shareholders vote in favour of the Arrangement and the BC TELECOM Special Resolution.**

In reaching the foregoing conclusions, the BC TELECOM Board of Directors obtained and considered financial, legal and accounting advice and considered a number of other factors which it believed to be relevant, including the report and recommendations of its Independent Committee. See "Deliberations and Recommendations — Recommendation of BC TELECOM Board of Directors".

TELUS

The TELUS Board of Directors has unanimously concluded that the terms of the business combination are in the best interests of TELUS and are fair to TELUS Common Shareholders. **The Board of Directors of TELUS unanimously recommends that TELUS Shareholders vote in favour of the Arrangement and the TELUS Special Resolution.**

In reaching the foregoing conclusions, the TELUS Board of Directors obtained and considered financial, legal and accounting advice and considered a number of other factors which it believed to be relevant, including the report and recommendations of its Transaction Review Committee. See "Deliberations and Recommendations — Recommendation of TELUS Board of Directors".

Opinions of Financial Advisors

TD Securities Inc. and J.P. Morgan Securities Inc.

Each of TD Securities Inc. and J.P. Morgan Securities Inc. has acted as a financial advisor to BC TELECOM in connection with the Arrangement. In the opinion of TD Securities Inc., as at the date of its written opinion and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Transaction (as defined in the opinion of TD Securities Inc.) is fair from a financial point of view to the BC TELECOM Common Shareholders. In the opinion of J.P. Morgan Securities Inc., as at the date of its written opinion and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the consideration to be received by BC TELECOM Common Shareholders in the Arrangement is fair,

from a financial point of view, to BC TELECOM and BC TELECOM Common Shareholders. See Appendix F — Fairness Opinions.

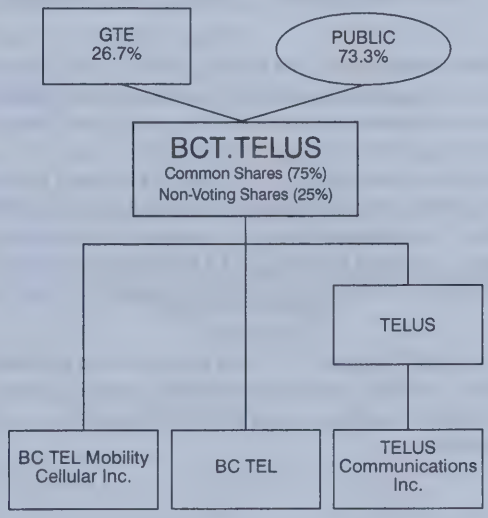
CIBC Wood Gundy Securities Inc.

CIBC Wood Gundy Securities Inc. has acted as a financial advisor to the BC TELECOM Independent Committee in connection with the Arrangement and related matters. In the opinion of CIBC Wood Gundy Securities Inc., as at the date of its written opinion and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Heads of Agreement is fair from a financial point of view to the minority shareholders of BC TELECOM and the Share Exchange Ratios and resulting Pro Forma BCT Ownership Percentage (both as defined in the opinion of CIBC Wood Gundy Securities Inc.) are fair from a financial point of view to BC TELECOM Common Shareholders, including the minority shareholders of BC TELECOM. See Appendix F — Fairness Opinions.

RBC Dominion Securities Inc. and Salomon Smith Barney Inc.

Each of RBC Dominion Securities Inc. and Salomon Smith Barney Inc. has acted as a financial advisor to TELUS in connection with the Arrangement. In the opinion of RBC Dominion Securities Inc., as at the date of its written opinion and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Transaction (as defined in the opinion of RBC Dominion Securities Inc.) is fair from a financial point of view to the TELUS Common Shareholders. In the opinion of Salomon Smith Barney Inc., as at the date of its written opinion and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Exchange Ratio (as defined in the opinion of Salomon Smith Barney Inc.) is fair to the TELUS Common Shareholders from a financial point of view. See Appendix F — Fairness Opinions.

BCT.TELUS After the Arrangement[1][2]



Notes:

(1) BC TELECOM is wound up into BCT.TELUS pursuant to the Arrangement.

(2) Pursuant to an internal reorganization to be effective January 1, 1999, the operations of TELUS Communications Inc., TELUS Communications (Edmonton) Inc., TELUS Mobility Inc. and certain other TELUS subsidiaries will be combined in one company to be called TELUS Communications Inc. See "Information Relating to TELUS — Recent Developments — Internal Reorganization".

Business Strategy

BCT.TELUS will be a combination of the second and third largest domestic telecommunications providers in Canada. As the premier telecommunications provider in its serving territory, BCT.TELUS will focus its business efforts on:

- enhancing its core business and market position;
- successfully integrating its business operations to realize the synergies available from the business combination; and
- implementing a national growth strategy.

Principal Services

BCT.TELUS will provide a full range of communications services. Voice and data communications, carried over both wireline and wireless networks, will be the major lines of business for BCT.TELUS. It will initially carry on business throughout British Columbia and Alberta.

Relationship with GTE

After consummation of the Arrangement, GTE will own, indirectly, 47,357,957 BCT.TELUS Common Shares and 15,785,985 BCT.TELUS Non-Voting Shares, or approximately 26.7% of the outstanding BCT.TELUS Shares. Due to this ownership position, GTE has agreed to execute, on or prior to the completion of the Arrangement, the Long-Term Relationship Agreement with BCT.TELUS.

The Long-Term Relationship Agreement generally: (a) limits GTE's rights to (i) acquire BCT.TELUS Shares in excess of an additional 7.5% voting or equity interest, (ii) transfer or sell BCT.TELUS Shares if its holdings would fall below 19.9% of the then outstanding BCT.TELUS Shares, and (iii) solicit mergers and other business combinations involving BCT.TELUS; (b) provides for the appointment or nomination of GTE designees as directors of BCT.TELUS proportionate to its then share ownership; and (c) provides anti-dilution rights for GTE.

BC TELECOM and GTE have entered into the binding Heads of Agreement. BCT.TELUS is to become a party to the intellectual property arrangements with GTE in place of BC TELECOM. BCT.TELUS will have, under the Heads of Agreement, the exclusive access to GTE's present and future intellectual property, including technology, software, trademarks, and service marks, in connection with the provision of telecommunications services in Canada outside the current operating territory of Le Groupe QuébecTel Inc. In addition, GTE has agreed to provide, upon request, certain functional and consulting services to BCT.TELUS. The initial term of this agreement is ten years, subject to automatic five year renewal terms unless a party otherwise terminates the agreement. GTE has agreed not to compete with BCT.TELUS in the provision of telecommunications services in Canada except in certain limited circumstances relating primarily to the sale of products and services to third parties.

GTE has agreed to merge with Bell Atlantic. GTE has agreed to use its best efforts to cause Bell Atlantic to grant to BCT.TELUS licences to the Bell Atlantic intellectual property on the completion of the GTE-Bell Atlantic merger. See "Details of the Arrangement and Related Transactions — Relationship between GTE and BCT.TELUS After the Arrangement".

Dividends

It is anticipated that BCT.TELUS will initially pay annual dividends on both BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares in an amount equal to $1.40 per share, commencing with a quarterly payment of $0.35 per share in respect of the first quarter of 1999. However, there can be no assurance that such dividends will be declared or continued at that rate. The declaration and payment of dividends will be at the discretion of the Board of Directors of BCT.TELUS which will consider the earnings, capital requirements and financial condition of BCT.TELUS and other relevant factors.

Selected Pro Forma Combined Consolidated Financial Information

The following selected pro forma combined consolidated financial information is based on the assumptions described in the notes to the BCT.TELUS pro forma combined consolidated financial statements attached hereto as Appendix I, including the compilation report of Arthur Andersen LLP. The pro forma combined consolidated balance sheets assume, among other things, the completion of the Arrangement effective on December 31, 1997 and September 30, 1998. However, the pro forma combined consolidated income statements and statements of changes in financial position are stated as if the Arrangement took place on January 1, 1997 and January 1, 1998. The pro forma combined consolidated financial statements are not necessarily indicative of what the BCT.TELUS financial position or results of operations would have been if the events reflected therein had been in effect on the dates indicated, nor do they purport to project the BCT.TELUS financial position or results of operations for any future periods. The pro forma combined consolidated financial information is based on certain assumptions and adjustments, including the non-recurring expenditures relating to the completion of the Arrangement. The selected pro forma combined consolidated financial information should be read in conjunction with the description of the Arrangement, the BCT.TELUS pro forma combined consolidated financial statements attached to this Joint Circular as Appendix I, and the 1997 audited consolidated financial statements and the 1998 unaudited interim financial information relating to each of BC TELECOM and TELUS contained in Appendix G and H, respectively, to this Joint Circular:

BCT.TELUS Pro Forma Combined Consolidated Selected Financial Statement Information

(millions of dollars except per share amounts)
(unaudited)

	Nine Months Ended September 30, 1998	For the Year Ended December 31, 1997
Revenues	4,288.0	5,473.1
EBITDA	1,693.0	2,157.9
Cash Flow from operations before working capital changes	1,189.1	1,565.2
Earnings from continuing operations, before extraordinary item[(1)]	423.4	394.2
Earnings per share from continuing operations, before extraordinary item[(1)]	1.78	1.65
Earnings (loss) per share, after extraordinary item	(0.46)	1.00
Cash Flow per share	5.02	6.61

Note:

(1) The extraordinary item relates to non-cash charges against the recorded value of regulated assets taken in 1998 by BC TELECOM and in 1997 by TELUS.

BCT.TELUS Pro Forma Combined Consolidated Selected Balance Sheet Information

(millions of dollars)
(unaudited)

	As at September 30, 1998	As at December 31, 1997
Current assets	1,185.3	1,377.9
Property, plant & equipment	5,732.9	6,627.6
Other assets	1,003.3	751.4
Total assets	7,921.5	8,756.9
Current liabilities	1,761.4	1,697.8
Long-term debt	1,733.3	2,280.6
Other long-term liabilities	174.5	179.8
Shareholders' equity	4,252.3	4,598.7
Total liabilities and shareholders' equity	7,921.5	8,756.9

Effective Date of the Arrangement

It is anticipated that the Arrangement will become effective after the requisite shareholder, court and regulatory approvals have been obtained and all other conditions to the Arrangement have been satisfied or waived. As at the date hereof, it is anticipated that the Arrangement will become effective on or about 11:59 p.m. (Pacific Standard Time) on the 31st day of January, 1999.

Stock Exchange Listings After the Effective Date

Each of the TSE, ME, ASE and VSE has conditionally approved the listing of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued in connection with the Arrangement, subject to the fulfillment of all stock exchange requirements.

Accounting Treatment

It is expected that the Arrangement will be accounted for using the pooling of interests method under Canadian GAAP.

Key Approvals and Conditions

Court Approvals

The Arrangement requires approval by the BC Court and the Alberta Court. The BC Court will consider the Arrangement, insofar as BC TELECOM and the BC TELECOM Shareholders are concerned, under the provisions of the CBCA, and the Alberta Court will consider the Arrangement insofar as TELUS and the TELUS Shareholders are concerned, under the provisions of the ABCA. **Notices of Petition are contained in Appendix K and Shareholders should refer to the Appendix for more detailed information in respect of the hearings for the Final Orders.**

Shareholder Approvals

The BC TELECOM Common Shareholders and BC TELECOM Optionholders, voting together, will be asked to approve the BC TELECOM Special Resolution at the BC TELECOM Meeting scheduled to be held at 10:00 a.m. (Pacific Standard Time) on January 21, 1999, at the Park Ballroom, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia.

The TELUS Common Shareholders and TELUS Optionholders, voting together, will be asked to approve the TELUS Special Resolution at the TELUS Meeting scheduled to be held at 10:30 a.m. (Mountain Standard Time) on January 19, 1999, at the Winspear Centre, #4 Sir Winston Churchill Square, 9720 - 102nd Avenue, Edmonton, Alberta.

Each Special Resolution must be approved by at least 66⅔% of the votes cast at the respective Meetings. In addition, since Anglo-Canadian owns greater than 50% of the outstanding BC TELECOM Common Shares and the Arrangement contemplates the issue of BCT.TELUS Non-Voting Shares, the BC TELECOM Special Resolution must be approved by a majority of the votes cast at the BC TELECOM Meeting other than the votes cast by Anglo-Canadian. At the BC TELECOM Meeting, each BC TELECOM Common Shareholder and BC TELECOM Optionholder will be entitled to vote on the basis of one vote per share held or which may be acquired under a BC TELECOM Option Plan, as the case may be, for the purpose of voting upon the BC TELECOM Special Resolution. At the TELUS Meeting, each TELUS Common Shareholder and each TELUS Optionholder will be entitled to vote on the basis of one vote per share held or which may be acquired under a TELUS Option Plan, as the case may be, for the purpose of voting upon the TELUS Special Resolution.

Regulatory Approvals

Competition Act

The Arrangement is a "notifiable transaction" for the purposes of Part IX of the *Competition Act*. On October 30, 1998, TELUS completed its submission and on November 4, 1998, BC TELECOM completed its submission of the required short-form pre-merger notification filing to the Competition Director in respect of

the Arrangement. BC TELECOM and TELUS have also asked the Competition Director for a "no-action" letter in respect of the Arrangement.

As of the date of this Joint Circular, the applicable waiting period under Part IX of the *Competition Act* had expired but the Competition Director had not issued a "no-action" letter advising that the Competition Director will not oppose completion of the Arrangement and will not make an application under the *Competition Act* in respect of the Arrangement. If issued, such letter would not bar the Competition Director from challenging the Arrangement at any time up to three years after the Arrangement has been completed.

CRTC

Approval from the CRTC is not required for completion of the Arrangement. While the CRTC has the discretion to undertake a review following closing of the Arrangement for compliance with the Canadian ownership and control requirements contained in the *Telecommunications Act* and the *Broadcasting Act*, BC TELECOM and TELUS believe the Arrangement has been structured to facilitate compliance with these statutory requirements so that the regulated operating subsidiaries will maintain their eligibility to operate as Canadian carriers.

Other Conditions Precedent

The Arrangement is subject to certain other conditions being satisfied, including the reaffirmation at the Effective Date of the opinions of each of the auditors of BC TELECOM and TELUS regarding the acceptability of the use of the pooling of interests method under Canadian GAAP to account for the business combination of BC TELECOM and TELUS.

Certain Income Tax Considerations

Canadian Federal Income Tax

Canadian Resident Shareholders

Canadian resident holders of BC TELECOM Common Shares or TELUS Common Shares, other than Tax-Exempt Shareholders, who hold such shares as capital property will generally be deemed not to have realized a capital gain or capital loss on the exchange of such shares for BCT.TELUS Shares unless the holder chooses to recognize and report a capital gain or a capital loss in the holder's income tax return for the taxation year in which the exchange occurs.

Non-Resident Shareholders

Holders of BC TELECOM Common Shares or TELUS Common Shares who are not resident in Canada and who participate in the Arrangement will generally not be subject to tax in Canada in respect of any capital gain realized on the exchange of BC TELECOM Common Shares or TELUS Common Shares for BCT.TELUS Shares, provided that the BC TELECOM Common Shares or TELUS Common Shares, as the case may be, are not "taxable Canadian property" to the holder at the time of the exchange.

Optionholders

BC TELECOM Optionholders and TELUS Optionholders who exchange their options for BCT.TELUS options pursuant to the Arrangement will not recognize any taxable income or loss as a result of such exchanges.

For a more detailed discussion of Canadian federal income tax consequences, see "Certain Income Tax Considerations — Canadian Federal Income Tax Considerations" and "— BC TELECOM Optionholders and TELUS Optionholders".

United States Federal Income Tax

The exchange of BC TELECOM Common Shares for BCT.TELUS Shares followed by the winding up and dissolution of BC TELECOM pursuant to the Arrangement will be treated as a reorganization under Section 368(a) of the Code. The exchange of TELUS Common Shares for BCT.TELUS Shares pursuant to the

Arrangement will be treated as a transaction described in Section 351 of the Code. Therefore, as a result of the Arrangement, a U.S. Holder who exchanges BC TELECOM Common Shares or TELUS Common Shares for BCT.TELUS Shares will not recognize any gain or loss upon such exchange, except to the extent that a U.S. Holder receives cash in lieu of fractional shares or pursuant to the exercise of dissent rights; however, non-recognition of gain (and certain collateral consequences) to a U.S. Holder who exchanges BC TELECOM Common Shares for BCT.TELUS Shares may be conditional on such U.S. Holder filing a notice with the Internal Revenue Service, as described in more detail herein. For a more detailed discussion of United States federal income tax consequences, see "Certain Income Tax Considerations — United States Federal Income Tax Considerations".

Summary of Qualification for Tax Plans

Provided the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares are listed on a prescribed stock exchange, such securities will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. See "Stock Exchange Listings" and "Eligibility for Investment".

Investment Considerations

In addition to reviewing the entire contents of this Joint Circular, BC TELECOM Shareholders and TELUS Shareholders are urged to carefully consider the matters set forth under "Investment Considerations" contained in this Joint Circular.

BCT.TELUS Non-Voting Shares

Holders of BCT.TELUS Non-Voting Shares will be entitled to receive notice of and to attend all general meetings of BCT.TELUS but will not be entitled to vote at such meetings unless otherwise required by law. In certain circumstances, holders of BCT.TELUS Non-Voting Shares will be entitled to convert all or part of such shares into BCT.TELUS Common Shares for the purposes of tendering to a take-over bid for the BCT.TELUS Common Shares or if the foreign ownership provisions of the *Telecommunications Act* are changed. See "BCT.TELUS Communications Inc. — Memorandum and Articles of BCT.TELUS".

Dissent Rights

BC TELECOM

Registered BC TELECOM Shareholders have the right to dissent in respect of the Arrangement and to be paid the fair value of their shares or options upon strict compliance with the provisions of Section 190 of the CBCA, as modified by the Interim Order of the BC Court. See "BC TELECOM Shareholders Rights of Dissent" and Appendix D — Procedure to Exercise Dissent Right Under the CBCA.

TELUS

Registered TELUS Shareholders have the right to dissent in respect of the Arrangement and to be paid the fair value of their shares or options upon strict compliance with the provisions of Section 184 of the ABCA, as modified by the Interim Order of the Alberta Court. See "TELUS Shareholders Rights of Dissent" and Appendix E — Procedure to Exercise Dissent Right Under the ABCA.

Procedures For Exchange of Share Certificates

BC TELECOM Common Shareholders and TELUS Common Shareholders should complete the letter of transmittal enclosed with this Joint Circular and deliver such letter and the certificate(s) representing their BC TELECOM Common Shares or TELUS Common Shares, as the case may be, to Montreal Trust Company of Canada as soon as possible. If the letter of transmittal and certificate(s) are received by Montreal Trust Company of Canada on or before 5:00 p.m. (local time) on January 18, 1999, BCT.TELUS Common Share certificates and BCT.TELUS Non-Voting Share certificates to which they may be entitled will be provided as soon as practicable upon the Arrangement becoming effective. In the event the Arrangement does not become effective, such BC TELECOM share certificate(s) or TELUS share certificate(s), as the case may be, will be promptly returned.

GLOSSARY OF TERMS

"ABCA" means the *Business Corporations Act*, S.A. 1981, c.B-15, as amended;

"ASE" means The Alberta Stock Exchange;

"AcquisitionCo." means 3481646 Canada Inc., a body corporate incorporated under the laws of Canada and a wholly-owned subsidiary of BCT.TELUS;

"Alberta Court" means the Court of Queen's Bench of Alberta;

"Anglo-Canadian" means Anglo-Canadian Telephone Company, a corporation incorporated under the laws of Québec;

"Arrangement" means the arrangement in respect of BC TELECOM under the provisions of Section 192 of the CBCA and the arrangement in respect of TELUS under the provisions of Section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

"Arrangement Agreement" means the amended and restated arrangement agreement effective the 27th day of October, 1998, among BC TELECOM, TELUS and BCT.TELUS, the full consolidated text as at the date hereof is reproduced in Appendix B to this Joint Circular, as it may be further amended from time to time;

"Articles of Arrangement" means the articles of arrangement in respect of the Arrangement in respect of BC TELECOM required by the CBCA to be sent to the Director and in respect of TELUS required by the ABCA to be sent to the Registrar, in each case after the Final Order is made;

"BCCA" means the *Company Act*, R.S.B.C. 1996, c.62, as amended;

"BC Court" means the Supreme Court of British Columbia;

"BC Registrar" means the Registrar of Companies under the BCCA;

"BC TELECOM" means BC TELECOM Inc., a corporation incorporated under the CBCA, and, where the context so requires, includes its subsidiaries;

"BC TELECOM Common Shareholders" mean the holders of BC TELECOM Common Shares;

"BC TELECOM Common Shares" mean common shares in the capital of BC TELECOM;

"BC TELECOM Exchange Ratio" means one BCT.TELUS Common Share or one BCT.TELUS Non-Voting Share, as applicable, for each BC TELECOM Common Share as provided in the Plan of Arrangement;

"BC TELECOM Meeting" means such meeting of BC TELECOM Shareholders as is required to be held in accordance with the Interim Order;

"BC TELECOM Option Plans" mean the BC TELECOM Share Option Plan and the BC TELECOM Long-Term Incentive Share Option Plan;

"BC TELECOM Optionholders" mean the holders of options under the BC TELECOM Option Plans, whether such options are vested or not;

"BC TELECOM Record Date" means December 9, 1998;

"BC TELECOM Shareholders" mean the BC TELECOM Common Shareholders and the BC TELECOM Optionholders;

"BC TELECOM Shares" mean the BC TELECOM Common Shares and the options under the BC TELECOM Option Plans;

"BC TELECOM Special Resolution" means the special resolution of BC TELECOM Shareholders approving the Arrangement to be considered at the BC TELECOM Meeting, the full text of which is reproduced in Appendix A to this Joint Circular;

"BC TELECOM Taxable Exchange Shareholder" means each BC TELECOM Common Shareholder who is a Non-Resident Shareholder or a Tax-Exempt Shareholder;

"BCT.TELUS" means BCT.TELUS Communications Inc., a company incorporated under the BCCA, and, where the context so requires, includes its subsidiaries;

"BCT.TELUS Common Shares" mean the common shares, without par value, to be issued by BCT.TELUS pursuant to the Arrangement;

"BCT.TELUS Non-Voting Shares" mean the non-voting shares, without par value, to be issued by BCT.TELUS pursuant to the Arrangement;

"BCT.TELUS Shares" means the BCT.TELUS Common Shares and the BCT.TELUS Non-Voting Shares;

"Bell Atlantic" means Bell Atlantic Corporation, a corporation incorporated under the laws of the State of Delaware;

"Broadcasting Act" means the *Broadcasting Act*, S.C. 1991, c.11, as amended;

"business day" means any day, other than Saturday, Sunday and a statutory holiday in the Provinces of British Columbia or Alberta;

"CBCA" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

"Certificate of Arrangement" means the certificate of arrangement issued to BC TELECOM in respect of the Plan of Arrangement pursuant to the CBCA;

"Code" means the *Internal Revenue Code of 1986* (United States), as amended;

"Compensation and Option Agreements" means the compensation and option agreements between BC TELECOM and TELUS entered into in connection with the Arrangement Agreement;

"Competition Act" means the *Competition Act*, R.S.C. 1985, C-34, as amended;

"Competition Director" means the Director of Investigation and Research under the *Competition Act*;

"Courts" mean the BC Court and the Alberta Court;

"CRTC" means the Canadian Radio-television and Telecommunications Commission, which is the federal regulatory body responsible for regulating telecommunications and broadcasting in Canada;

"Depository" means Montreal Trust Company of Canada, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 and 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8 and other offices specified in the letter of transmittal;

"Director" means the Director appointed pursuant to Section 260 of the CBCA;

"EBITDA" means earnings before interest, income taxes, depreciation and amortization;

"Effective Date" means the date upon which the Arrangement becomes effective as provided in the Plan of Arrangement, which is expected to be January 31, 1999;

"Effective Time" means 11:59 p.m. (Pacific Standard Time) on the Effective Date;

"Final Orders" mean the orders of the BC Court and the Alberta Court approving the Arrangement after considering the fairness thereof, as such orders may be amended at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed and ***"Final Order"*** means either of such orders, as the case may be;

"GAAP" means generally accepted accounting principles;

"GTE" means GTE Corporation, a corporation incorporated under the laws of the State of New York;

"Heads of Agreement" means the agreement between GTE and BC TELECOM and initialed for identification by TELUS which, *inter alia*, describes the terms to be included in the Intellectual Property Agreement;

"Intellectual Property Agreement" means the agreement anticipated to be entered into on or before the Effective Date between BCT.TELUS and GTE incorporating the terms of and replacing the Heads of Agreement;

"Interim Orders" means the orders of the BC Court and the Alberta Court, containing declarations, orders and directions in respect of BC TELECOM under the CBCA and in respect of TELUS under the ABCA, in each case, with respect to the Arrangement and ***"Interim Order"*** means either of such orders, as the case may be;

"Joint Circular" means this Joint Management Proxy Circular of BC TELECOM and TELUS prepared by BC TELECOM and TELUS to be sent to the BC TELECOM Shareholders and the TELUS Shareholders in connection with the Meetings and in accordance with the Interim Orders;

"Long-Term Relationship Agreement" means the agreement among BCT.TELUS, GTE and Anglo-Canadian to be entered into on or before the Effective Date providing for certain ongoing rights and obligations relating to the continuing relationship among BCT.TELUS, GTE and Anglo-Canadian, the full text of which is reproduced in Appendix J of this Joint Circular;

"ME" means the Montreal Exchange;

"Meeting" or ***"Meetings"*** means the BC TELECOM Meeting or the TELUS Meeting, or both, as applicable;

"Non-Disclosure Agreement" means the letter agreement dated June 30, 1998 between BC TELECOM and TELUS as extended and amended from time to time;

"Non-Resident Shareholder" means any BC TELECOM Common Shareholder or TELUS Common Shareholder, as the case may be, who is not resident in Canada for the purposes of the Tax Act;

"Parties" mean BC TELECOM and TELUS; and ***"Party"*** means either one of them;

"Plan of Arrangement" means the plan of arrangement, the full text of which is reproduced in Appendix B to this Joint Circular, including any amendment or variation thereto made in accordance with Section 6.3 of such plan or Section 7.1 of the Arrangement Agreement;

"Registrar" means the Registrar of Corporations appointed pursuant to Section 253 of the ABCA;

"Securities Act of 1933" means the United States Securities Act of 1933, as amended;

"Shareholders" mean the registered holders from time to time of the Shares and ***"Shareholder"*** means any one of them;

"Shares" mean any or all of the BC TELECOM Shares and TELUS Shares, as applicable;

"Special Resolutions" mean the BC TELECOM Special Resolution or the TELUS Special Resolution, or both, as applicable;

"Stentor Alliance" means the alliance among the nine regionally based incumbent telephone companies comprised of Bell Canada, BC TEL, Island Telecom Inc., NBTel Inc., MTS Communications Inc., Maritime Tel & Tel Limited, NewTel Communications Inc., Saskatchewan Telecommunications and TELUS Communications Inc.;

"TSE" means The Toronto Stock Exchange;

"Tax Act" means the *Income Tax Act*, R.S.C. 1985 (5th Supp.) c. 1, as amended;

"Tax-Exempt Shareholder" means any BC TELECOM Common Shareholder or TELUS Common Shareholder, as the case may be, (other than a Non-Resident Shareholder) that is exempt from tax under Part I of the Tax Act;

"Telecommunications Act" means the *Telecommunications Act*, 1993, c. 38, as amended;

"TELUS" means TELUS Corporation, a corporation incorporated under the ABCA, and, where the context so requires, includes its subsidiaries;

"TELUS Common Shareholders" mean the holders of TELUS Common Shares;

"TELUS Common Shares" mean the common shares in the capital of TELUS;

"TELUS Exchange Ratio" means 0.7773 of a BCT.TELUS Common Share or 0.7773 of a BCT.TELUS Non-Voting Share, as applicable, for each TELUS Common Share as provided in the Plan of Arrangement;

"TELUS Meeting" means such meeting of TELUS Shareholders as is required to be held in accordance with the Interim Order;

"TELUS Multimedia Trial" means a technical and market trial carried on by TELUS providing multimedia services in certain communities in Edmonton and Calgary pursuant to Broadcasting Decision CRTC 97-193 and Telecom Decision CRTC 97-12;

"TELUS Option Plans" mean the TELUS Stock Option Plan and the TELUS Directors Stock Option Plan;

"TELUS Optionholders" mean the holders of options under the TELUS Option Plans, whether such options are vested or not;

"TELUS Record Date" means December 9, 1998;

"TELUS Shareholders" mean the TELUS Common Shareholders and the TELUS Optionholders;

"TELUS Shares" mean the TELUS Common Shares and the options under the TELUS Option Plans;

"TELUS Special Resolution" means the special resolution of TELUS Shareholders approving the Arrangement to be considered at the TELUS Meeting, the full text of which is reproduced in Appendix A to this Joint Circular;

"TELUS Taxable Exchange Shareholder" means each TELUS Common Shareholder who is a Non-Resident Shareholder or a Tax-Exempt Shareholder;

"VSE" means the Vancouver Stock Exchange; and

"Voting Agreement" means the agreement dated as of October 27, 1998 among GTE, Anglo-Canadian, BC TELECOM, BCT.TELUS and TELUS which provides for, *inter alia*, certain matters relating to the BC TELECOM Meeting and TELUS Common Shares.

Amounts indicated in U.S. dollars in this Joint Circular have been converted to Canadian dollars based on an exchange rate of $1.5038.

JOINT MANAGEMENT PROXY CIRCULAR

This Joint Circular is being furnished to BC TELECOM Shareholders in connection with the solicitation of proxies by BC TELECOM management for use at the BC TELECOM Meeting to be held at 10:00 a.m. (Pacific Standard Time) on January 21, 1999, at Vancouver, British Columbia and any adjournment thereof.

This Joint Circular is also being furnished to TELUS Shareholders in connection with the solicitation of proxies by TELUS management for use at the TELUS Meeting to be held at 10:30 a.m. (Mountain Standard Time) on January 19, 1999, at Edmonton, Alberta and any adjournment thereof.

All information in this Joint Circular relating to BC TELECOM has been supplied by BC TELECOM and all information relating to TELUS has been supplied by TELUS. All information in this Joint Circular relating to BCT.TELUS has been supplied by both BC TELECOM and TELUS. Unless the context otherwise requires, capitalized terms used in this Joint Circular without definition have the meanings ascribed thereto in the Glossary of Terms.

No person is authorized to give any information or to make any representation not contained in this Joint Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Joint Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation of an offer or proxy solicitation. Neither delivery of this Joint Circular nor any distribution of the securities referred to in this Joint Circular shall, under any circumstances, create an implication that there has been no change in the information set forth therein since the date of this Joint Circular.

Certain information in this Joint Circular is forward-looking information and relates to, among other things, anticipated financial performance, business prospects, strategies, new services, market forces, commitments and technological developments. Certain of this information appears in BC TELECOM's and TELUS Management Discussion & Analysis, included in Appendix G and H, respectively, to this Joint Circular. This forward-looking information is subject to various risks and uncertainties, including those discussed in "Investment Considerations", that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is provided as of the date of this Joint Circular unless otherwise stated, and neither BC TELECOM nor TELUS undertake any obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "should" or similar words suggesting future outcomes. The discussion in "Investment Considerations" is intended to identify certain factors, though not necessarily all factors, that could cause future outcomes to differ materially from those set forth in the forward-looking information and BC TELECOM Shareholders and TELUS Shareholders are urged to carefully consider the matters set forth under "Investment Considerations".

SOLICITATION OF PROXIES

This Joint Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of each of BC TELECOM and TELUS for use at the Meetings. Directors, officers and employees of each of BC TELECOM and TELUS may, for no additional compensation, solicit proxies by telephone, telecopy, mail or other communication. While no arrangements have been made to date, either one or both of BC TELECOM and TELUS may contract for the solicitation of proxies for the Meetings. The costs incurred in soliciting proxies will be paid by each of BC TELECOM and TELUS in connection with its own solicitation. If either BC TELECOM or TELUS retains the services of an investment dealer to form a soliciting dealer group to solicit proxies for a Meeting, BC TELECOM or TELUS will incur costs which could consist of: (i) management fees; (ii) a fee per Share solicited by a broker or dealer; (iii) a fee per telephone call placed to Shareholders; and (iv) reimbursement for out-of-pocket expenses. Payments could also be made to brokers or nominees holding Shares in their names or in the names of their principals for their reasonable expenses in sending solicitation material to their principals.

APPOINTMENT AND REVOCATION OF PROXIES

Accompanying this Joint Circular is, in the case of BC TELECOM Shareholders, a form of proxy (printed on BLUE paper) for use at the BC TELECOM Meeting, in the case of TELUS Shareholders, a form of proxy (printed on GREEN paper) and, in the case of holders of TELUS Common Shares owned by employees through the TELUS Employee Share Plan, a voting instruction card (printed on YELLOW paper) for use at the TELUS Meeting.

Voting of Registered Holders of BC TELECOM Shares or TELUS Shares

All properly executed forms of proxy of BC TELECOM Shareholders must be received by Montreal Trust Company of Canada, at 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 in all cases no later than 5:00 p.m. (Pacific Standard Time) on January 19, 1999 or, if the BC TELECOM Meeting is adjourned, by the close of business on the last business day prior to the date on which the Meeting is reconvened.

All properly executed forms of proxy of TELUS Shareholders must be received by Montreal Trust Company of Canada, at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8 in all cases no later than 5:00 p.m. (Mountain Standard Time) on January 18, 1999 or, if the TELUS Meeting is adjourned, by the close of business on the last business day prior to the date on which the Meeting is reconvened.

The form of proxy must be signed by the Shareholder or the Shareholder's attorney authorized in writing. If such Shareholder is a corporation, the form of proxy must be executed under its corporate seal or by an officer or attorney thereof duly authorized and in the case of the form of proxy for use at the TELUS Meeting, accompanied by a true copy of a director's resolution or power of attorney. Persons signing as executors, administrators, or trustees should so indicate and must provide a true copy of the document establishing their authority. A partnership should sign in the partnership name by an authorized person(s).

The persons designated in the form of proxy furnished by BC TELECOM are directors or officers of BC TELECOM. The persons designated in the form of proxy furnished by TELUS are directors or officers of TELUS. A Shareholder submitting a form of proxy has the right to appoint a person (who need not be a Shareholder) other than any person designated in the form of proxy furnished by BC TELECOM or TELUS to attend and act for them and on their behalf at the Meeting at which they are entitled to vote. To exercise this right, the Shareholder must insert the name of the desired representative in the blank space provided in the form of proxy or may submit another appropriate form of proxy.

The forms of proxy furnished by BC TELECOM and TELUS, where the Shareholder specifies a choice with respect to the Special Resolutions, will be voted on any ballot in accordance with the instructions contained therein. **Where no choice is specified, the form of proxy will be voted "FOR" the BC TELECOM Special Resolution or TELUS Special Resolution, as the case may be. The persons appointed under the forms of proxy furnished by BC TELECOM and TELUS are conferred discretionary authority with respect to amendments to those matters specified in the form of proxy or other matters which may properly come before the Meetings. At the time of the printing of this Joint Circular, the management of each of BC TELECOM and TELUS know of no such**

amendment or other matter except as disclosed in this Joint Circular. If any matters which are not now known should properly come before the Meeting, the persons named in the enclosed form of proxy will vote on such matters in accordance with their best judgment.

A form of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the Shareholder or the Shareholder's attorney, authorized in writing, or if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited with the Corporate Secretary of BC TELECOM or TELUS, as the case may be, or their respective transfer agents at the addresses referred to above, no later than the close of business, local time, on the day (excluding Saturdays, Sundays and statutory holidays) before the Meeting or, if the Meeting is adjourned, on the day (excluding Saturdays, Sundays and statutory holidays) before the Meeting is reconvened, or with the Chairman of the Meeting immediately prior to such Meeting, or any reconvened Meeting, and upon either of such deposits the proxy is revoked.

Voting of BC TELECOM Common Shares Purchased Through the BC TELECOM Employee Share Purchase Plan

The voting rights attached to the BC TELECOM Common Shares owned by employees through the BC TELECOM Employee Share Purchase Plan may be exercised by the holders thereof by completing the enclosed form of proxy (BLUE) in accordance with the instructions under the above section "Appointment and Revocation of Proxies" and returning it in the enclosed envelope to Montreal Trust Company of Canada. Montreal Trust Company of Canada has agreed to act as the recipient of the returned proxy forms for the purpose of tabulation.

Voting of TELUS Common Shares Purchased Through the TELUS Employee Share Plan

The Royal Trust Company ("Trustee") is the trustee of all TELUS Common Shares owned by employees through the TELUS Employee Share Plan.

Voting rights attached to the TELUS Common Shares owned by employees through the TELUS Employee Share Plan may be exercised by the holders thereof by completing the enclosed voting instruction card (YELLOW) and thereby directing the Trustee as to how such TELUS Common Shares are to be voted at the TELUS Meeting. The Trustee will deliver one or more forms of proxy at the TELUS Meeting indicating the result of all votes cast by way of voting instruction cards. The voting rights attached to the TELUS Common Shares owned by employees through the TELUS Employee Share Plan will be voted for or against in accordance with the specifications made.

Montreal Trust Company of Canada has agreed to act as the recipient of the voting instruction cards and will forward them to the Trustee for tabulation.

In order for TELUS Common Shares owned by employees through the TELUS Employee Share Plan to be voted at the TELUS Meeting, a voting instruction card in respect thereof must be received at the office of Montreal Trust Company of Canada, 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8 in all cases no later than 5:00 p.m. (Mountain Standard Time) on January 18, 1999, or, if the TELUS Meeting is adjourned, on the day (excluding Saturdays, Sundays and statutory holidays) before the TELUS Meeting is reconvened. The employee holder of TELUS Common Shares owned through the TELUS Employee Share Plan who has given a voting instruction card may revoke it by depositing another voting instruction card bearing a later date or a notice of such revocation, signed by such holder or by an attorney of such holder authorized in writing, at the office of Montreal Trust Company of Canada designated above at any time up to and including the last business day preceding the day of the TELUS Meeting or, if adjourned, the date on which the Meeting is reconvened.

No form of proxy is to be completed in respect of TELUS Common Shares owned by employees through the TELUS Employee Share Plan. However, if an employee holds TELUS Common Shares (other than TELUS Common Shares owned by employees through the TELUS Employee Share Plan) or options to acquire TELUS Common Shares, the form

of proxy must be completed to vote such securities, unless such employee attends the TELUS Meeting and votes such securities in person.

Advice to Beneficial Holders of BC TELECOM Common Shares or TELUS Common Shares

The information set forth in this section is of significant importance to many shareholders, as a substantial number of shareholders do not hold Shares in their own name. Shareholders who hold Shares through their brokers, intermediaries, trustees or other persons, or who otherwise do not hold their Shares in their own name (referred in this section as "Beneficial Shareholders") should note that only proxies deposited by Shareholders whose names appear on the records of BC TELECOM or TELUS, as the case may be, may be recognized and acted upon at the Meetings. If BC TELECOM Common Shares or TELUS Common Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, then in almost all cases those Shares will not be registered in the Beneficial Shareholder's name on the records of BC TELECOM or TELUS, as the case may be. Such Shares will more likely be registered under the names of the broker or an agent of that broker. In Canada, the vast majority of shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Shares held by brokers, agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers, agents and nominees are prohibited from voting shares for the brokers' clients. **Therefore, Beneficial Shareholders should ensure that instructions respecting the voting of their BC TELECOM Common Shares or TELUS Common Shares are communicated to the appropriate person by the appropriate time.**

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Each intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders to ensure that their BC TELECOM Common Shares or TELUS Common Shares are voted at the appropriate Meeting. The purpose of the form of proxy or voting instruction form supplied to a Beneficial Shareholder by its broker, agent or nominee is limited to instructing the registered Shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Independent Investor Communications Corporation ("IICC"). IICC typically supplies a voting instruction form, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the forms to IICC or follow specified telephone voting procedures. IICC then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Shares to be represented at the appropriate Meeting. **A Beneficial Shareholder receiving a voting instruction form from IICC cannot use that form to vote BC TELECOM Common Shares or TELUS Common Shares directly at the respective Meeting — the voting instruction forms must be returned to IICC or the telephone procedures completed well in advance of the respective Meeting in order to have such shares voted.**

Although Beneficial Shareholders may not be recognized directly at the appropriate Meeting for the purpose of voting shares registered in the name of their broker, agent or nominee, a Beneficial Shareholder may attend at the appropriate Meeting as proxyholder for the Shareholder and vote the BC TELECOM Common Shares or TELUS Common Shares, as the case may be, in that capacity. Beneficial Shareholders who wish to attend at the appropriate Meeting and indirectly vote their BC TELECOM Common Shares or TELUS Common Shares, as the case may be, as proxyholder for the registered Shareholder, should enter their own names in the blank space on the form of proxy or voting instruction form provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the appropriate Meeting.

VOTING AND RECORD DATE

Each BC TELECOM Shareholder and TELUS Shareholder of record at the close of business on December 9, 1998 will be entitled to receive notice of the relevant Meeting. Each such Shareholder will be entitled to vote at the relevant Meeting, in accordance with the provisions set out below, unless such person transfers the ownership of any of the Common Shares held by that Shareholder after the record date and the transferee of those Common Shares establishes that such transferee owns the Common Shares and demands to the respective transfer agents at the addresses referred to above, not later than ten days before the relevant

Meeting, that the transferee's name be included in the list of Shareholders entitled to vote at the relevant Meeting.

The quorum at the BC TELECOM Meeting will be at least two persons present in person or represented by proxy, and holding or representing not less than 10% of the votes attached to the BC TELECOM Shares entitled to vote at the BC TELECOM Meeting, and the quorum at the TELUS Meeting will be at least two persons present in person or represented by proxy, and holding or representing not less than 1% of the votes attached to the TELUS Common Shares entitled to be voted at the TELUS Meeting provided that, if no quorum is present at the opening of either Meeting, such Meeting shall stand adjourned to a fixed time and place as specified by the Chairman of the Meeting.

The Meetings will be held and conducted, in the case of BC TELECOM, in accordance with the CBCA and bylaws of BC TELECOM and, in the case of TELUS, in accordance with the ABCA and bylaws of TELUS and in accordance with the Interim Orders.

BC TELECOM proxies will be counted and tabulated by Montreal Trust Company of Canada in such a manner as to preserve the confidentiality of individual Shareholder votes, except: (i) as necessary to meet the applicable legal requirements; (ii) in the event of a proxy contest; or (iii) in the event such Shareholder has made a written comment on the form of proxy.

There were 124,241,266 BC TELECOM Common Shares outstanding and options to purchase 1,491,129 BC TELECOM Common Shares outstanding as at November 30, 1998. With respect to voting on the BC TELECOM Special Resolution or on other matters properly coming before the BC TELECOM Meeting, each BC TELECOM Common Shareholder is entitled to one vote for each Common Share held and each BC TELECOM Optionholder is entitled to one vote for each Common Share which he or she would receive upon valid exercise of his or her options held under the BC TELECOM Option Plans. For the Special Resolution to be approved: (i) at least 66⅔% of the votes cast by BC TELECOM Shareholders, present in person or represented by proxy must be cast in favour of such resolution; and (ii) a majority of the votes cast by BC TELECOM Shareholders, present in person or represented by proxy, other than votes cast by Anglo-Canadian, must be cast in favour of such resolution. Management of BC TELECOM is not aware of any person owning, beneficially, directly or indirectly, or exercising control or discretion over more than 10% of the BC TELECOM Shares, other than Anglo-Canadian, which is beneficially owned and controlled as to 100% of its common shares by GTE and holds 63,143,943 BC TELECOM Common Shares (representing 50.8% of the outstanding BC TELECOM Common Shares).

There were 144,514,119 TELUS Common Shares outstanding and options to purchase 1,897,220 TELUS Common Shares outstanding as at November 30, 1998. With respect to voting on the TELUS Special Resolution or on other matters properly coming before the TELUS Meeting, each TELUS Common Shareholder is entitled to one vote for each Common Share held and each TELUS Optionholder is entitled to one vote for each Common Share which he or she would receive upon valid exercise of his or her options held under the TELUS Option Plans. For the Special Resolution to be approved at least 66⅔% of the votes cast by TELUS Shareholders, present in person or represented by proxy must be cast in favour of such resolution. Management of TELUS is not aware of any person owning, beneficially, directly or indirectly, or exercising control or discretion over more than 10% of the TELUS Shares.

THE ARRANGEMENT

General

BC TELECOM and TELUS have agreed, subject to the satisfaction of certain conditions precedent, to a merger of equals by way of the Arrangement pursuant to which they will form a new public company, BCT.TELUS Communications Inc. BCT.TELUS will be the second largest domestic Canadian telecommunications provider with the financial capacity and other capabilities to enable it to compete in all of the major Canadian markets as a provider of communication services. See "The Effect of the Arrangement on Shareholdings — Schematic Representations of the Arrangement Process".

The Arrangement will be effected by way of a court approved Plan of Arrangement pursuant to the Arrangement Agreement. BC TELECOM Shareholders are being asked to approve the BC TELECOM Special Resolution and TELUS Shareholders are being asked to approve the TELUS Special Resolution.

Pursuant to the Arrangement, TELUS Common Shareholders will exchange 75% of their TELUS Common Shares on the basis of 0.7773 BCT.TELUS Common Shares for each TELUS Common Share held and 25% of their TELUS Common Shares on the basis of 0.7773 BCT.TELUS Non-Voting Shares for each TELUS Common Share held. BC TELECOM Common Shareholders will exchange 75% of their BC TELECOM Common Shares for BCT.TELUS Common Shares on a one for one basis and 25% of their BC TELECOM Common Shares for BCT.TELUS Non-Voting Shares on a one for one basis. See "The Effect of the Arrangement on Shareholdings — Share Exchange". The BC TELECOM Optionholders and the TELUS Optionholders will see their respective options exchanged for options to acquire BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares on a similar basis. See "The Effect of the Arrangement on Shareholdings — Option Exchange".

Background to the Arrangement

Given recent regulatory and competitive developments and consolidations in the communications industry in Canada and worldwide, each of BC TELECOM and TELUS concluded that shareholder value would be enhanced by achieving higher revenue growth and increased operating efficiencies through a strategic business combination with another telecommunications service provider.

In early May 1998, members of the senior management of BC TELECOM and TELUS initiated discussions with respect to the possibility of a business combination of the two companies. At their respective meetings held in early June, the Boards of Directors were advised of the discussions. Effective June 1, 1998, TELUS retained RBC Dominion Securities Inc. ("RBC DS") and Salomon Smith Barney Inc. ("Salomon Smith Barney") as its financial advisors in connection with the proposed transaction and on June 15, 1998, BC TELECOM retained TD Securities Inc. ("TD Securities") and J.P. Morgan Securities Inc. ("J.P. Morgan Securities") as its financial advisors in connection with the proposed transaction.

On June 30, 1998, BC TELECOM and TELUS entered into the Non-Disclosure Agreement in which they agreed to exchange information for the purpose of evaluating a potential transaction and to deal exclusively with one another. Following the execution of the Non-Disclosure Agreement, BC TELECOM and TELUS, and their respective representatives, proceeded to exchange and review information, to conduct investigations of their respective financial positions, operations and prospects, and to discuss the terms and conditions upon which a business combination could be structured. Subsequently, GTE and TELUS entered into a non-disclosure agreement in respect of confidential information to be exchanged between them and providing for exclusivity and stand-still commitments.

At a BC TELECOM Board of Directors meeting held on July 23, 1998, its Strategic Policy Committee reported on the business combination discussions between BC TELECOM and TELUS and the Board of Directors established a special committee of independent directors (the "Independent Committee") for the purposes of determining whether any proposed merger transaction, including one involving TELUS, would be fair and reasonable to the shareholders of BC TELECOM and in the best interests of BC TELECOM and to report to the Board of Directors concerning such determinations. The Independent Committee retained CIBC Wood Gundy Securities Inc. ("CIBC Wood Gundy") to serve as its financial advisor.

On July 24, 1998, management reported to the TELUS Board of Directors on the status of the business combination discussions.

On September 15, 1998, the Board of Directors of TELUS amended and redefined the mandate of the Transaction Review Committee (a committee of its Board of Directors constituted on December 10, 1997 to consider an earlier proposed transaction and to facilitate implementation of the TELUS growth strategy adopted in December 1996) specifically to deal with the proposed business combination with BC TELECOM.

From early September to mid-October 1998, there were numerous meetings between representatives of BC TELECOM and TELUS to discuss the broad principles upon which a transaction could be completed and to negotiate definitive agreements. During the same period, meetings were taking place between GTE, BC TELECOM and TELUS on terms and conditions relating to, among other things, the licensing of GTE intellectual property which culminated in the Heads of Agreement.

The Board of Directors of TELUS met on October 4, 1998 and received a full report on the progress of the negotiations from management, the Transaction Review Committee and financial and legal advisors. The Board of Directors of BC TELECOM met on October 5, 1998 and received a full report on the progress of the negotiations from management, the Independent Committee and financial and legal advisors.

On October 13, 1998, BC TELECOM and TELUS announced that they were in discussions with respect to a potential transaction.

On October 19, 1998, the Board of Directors of BC TELECOM met and, after considering all relevant factors, including the report of the Independent Committee and the fairness opinions from TD Securities, J.P. Morgan Securities and CIBC Wood Gundy and advice from accounting and legal advisors, approved the execution of an arrangement agreement between BC TELECOM and TELUS. See "Deliberations and Recommendations — Recommendation of BC TELECOM Board of Directors".

On October 19, 1998, the Board of Directors of TELUS met and, after considering all relevant factors and after receiving the report of the Transaction Review Committee and the fairness opinions from RBC DS and Salomon Smith Barney and advice from accounting and legal advisors, approved the execution of an arrangement agreement between BC TELECOM and TELUS. See "Deliberations and Recommendations — Recommendation of TELUS Board of Directors".

On October 19, 1998, following the execution of the arrangement agreement, the Compensation and Option Agreements, the Heads of Agreement and a support agreement with GTE, BC TELECOM and TELUS jointly announced that they had entered into an arrangement agreement and that, subject to certain agreed conditions, the two companies would merge.

Between October 19 and October 27, 1998, and following certain regulatory decisions, BC TELECOM and TELUS continued to have discussions on ways to better accommodate the existing non-Canadian shareholders, given the limitations imposed on the holding of voting shares by non-Canadians under the *Telecommunications Act*, and to better position BCT.TELUS in the international capital markets. Further discussions were also carried out with GTE regarding board representation and long-term arrangements between GTE and BCT.TELUS. On October 25, 1998, the Transaction Review Committee met to review and consider the proposed changes to the arrangement agreement entered into on October 19, 1998. On October 26, 1998, the Board of Directors of TELUS met to approve the execution of an amended and restated arrangement agreement. On October 26, 1998, the Independent Committee met to review and consider the proposed changes to the arrangement agreement entered into on October 19, 1998. On October 27, 1998, the Board of Directors of BC TELECOM met to approve the execution of an amended and restated arrangement agreement. Following the execution of the amended and restated arrangement agreement and the Voting Agreement, BC TELECOM and TELUS made a further announcement that the terms of the Arrangement had been modified to include: (i) distribution of the BCT.TELUS Non-Voting Shares; (ii) proportional representation on the Board of Directors of BCT.TELUS through cumulative voting; and (iii) certain limits on GTE's ability to increase or decrease its ownership interest in BCT.TELUS. A copy of the Arrangement Agreement is attached hereto in its entirety in Appendix B. See "Details of the Arrangement and Related Transactions".

BENEFITS OF THE TRANSACTION

As a result of the business combination, management of both BC TELECOM and TELUS expect that BCT.TELUS will be in a better position to meet the challenge of competitors entering its traditional serving territory. Through its relationship with GTE, BCT.TELUS expects to have access to the software and related technology to allow it to develop new products and businesses and add breadth and depth to its existing businesses.

The business combination will take advantage of the strategic and operational compatibility of BC TELECOM and TELUS and should result in the following benefits: (i) creation of a platform for long-term growth and expansion into new geographic areas and emerging communications business sectors; (ii) realization of substantial synergies, including cost savings through the combination of duplicated functions; (iii) enhanced access to capital markets as a result of greater financial strength, market capitalization and increased public float; and (iv) an alliance with GTE, a telecommunications leader in the provision of voice, data and internet services.

Platform for Growth

Management of BC TELECOM and TELUS believe that the business combination will provide a strong platform for growth in revenue and earnings as it will strengthen the ability of BCT.TELUS to compete effectively in its core businesses, to develop new businesses and to expand outside its traditional serving territory. In particular:

(a) The business combination will facilitate market entry in new geographic regions in which BC TELECOM is currently restricted from operating and in which TELUS does not presently operate; and

(b) BCT.TELUS will have greater scale and scope, giving it the flexibility and financial capacity to pursue acquisitions and other growth opportunities.

Synergies

Management of both companies believe that their contiguous serving territories and shared core competencies in wireline and wireless communications businesses will allow BCT.TELUS to take advantage of cost synergies. BC TELECOM and TELUS estimate that by the third year, annual operating cost savings could amount to approximately $250 million, and annual capital cost savings could amount to approximately $115 million. Estimated one-time costs to achieve these savings are expected to be in the range of $250 million to $300 million. See "Investment Considerations — BCT.TELUS Considerations".

The operating and capital cost savings are anticipated to be realized principally by: (i) reduction of corporate overhead through the implementation of a single management team; (ii) realization of infrastructure efficiencies, improvements and general cost savings in areas such as network operations and information systems, including data operations, applications development and maintenance; and (iii) capital cost savings through enhanced purchasing power, inventory efficiencies and leveraging access to GTE's procurement strengths and pricing.

Enhanced Capital Markets Profile and Financial Resources

It is anticipated that BCT.TELUS will have substantial financial capacity, enhanced access to capital and greater ability to pursue growth opportunities, as indicated by the following:

(a) Revenues, EBITDA and Assets — For the nine months ended September 30, 1998, the pro forma consolidated revenues of BCT.TELUS are $4.3 billion, pro forma EBITDA is $1.7 billion and pro forma consolidated assets amount to $7.9 billion;

(b) Credit Ratings — Subsequent to the merger announcement, the Dominion Bond Rating Service reaffirmed the ratings of all of the rated securities of BC TELECOM, BC TEL and TELUS Communications Inc., all with a stable outlook. The Canadian Bond Rating Service has placed the

public debt of BC TELECOM, BC TEL and TELUS Communications Inc. under review, but the ratings of each of the companies continue unchanged;

(c) Dividends — It is anticipated that BCT.TELUS will initially pay annual dividends on both BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares in an amount equal to $1.40 per share commencing with a quarterly payment of $0.35 per share in respect of the first quarter of 1999. However, there can be no assurance that such dividends will be declared. The declaration and payment of dividends will be at the discretion of the Board of Directors of BCT.TELUS which will consider the earnings, capital requirements and financial condition of BCT.TELUS and other relevant factors; and

(d) Liquidity for Shareholders — BC TELECOM and TELUS believe that the larger market capitalization of BCT.TELUS, the smaller percentage equity position of GTE, larger public float and the availability of non-voting shares will result in greater trading liquidity in BCT.TELUS Shares and will lead to broader interest from non-Canadian investors compared to that which either would attain individually.

Relationship with GTE

Management of BC TELECOM and TELUS expect that the relationship with GTE through the Intellectual Property Agreement, which will provide BCT.TELUS with exclusive access in Canada (subject to limited exceptions) to GTE's present and future software and related technology and certain of its trademarks, will provide the following benefits:

(a) A broader portfolio of data and internet products and services and integrated operational support and network management systems;

(b) Increased pace of product development and introduction;

(c) Enhancement of the national growth strategy through deployment of sophisticated intellectual property and information technology platforms only available to BCT.TELUS;

(d) Significant cost reductions when compared to a stand-alone development of intellectual property and information technology; and

(e) Increased ability to serve cross-border and international traffic.

GTE has agreed to a merger with Bell Atlantic which would create a telecommunications company with combined annual operating revenues as of December 31, 1997 of approximately U.S. $53.5 billion (Cdn. $80 billion). The resulting company will be one of the largest local exchange carriers and cellular service providers in the United States. GTE has agreed to use its best efforts to cause Bell Atlantic to grant to BCT.TELUS licences to the Bell Atlantic intellectual property on the completion of the GTE-Bell Atlantic merger. However, there can be no assurance that the GTE-Bell Atlantic merger will be consummated or that such licences will be granted.

See "Details of the Arrangement and Related Transactions — Relationship between GTE and BCT.TELUS After the Arrangement".

DELIBERATIONS AND RECOMMENDATIONS

BC TELECOM Independent Committee

Organization of Independent Committee and Terms of Reference

The Board of Directors of BC TELECOM appointed Iain J. Harris (Chair), Brian C. Bentz, Pierre Choquette, G.N. Mel Cooper, M. Rendina K. Hamilton, John W. Pitts and Barbara J. Rae as members of the Independent Committee.

The Independent Committee was given a mandate to review the proposed business combination to determine whether it is fair and reasonable to all BC TELECOM Common Shareholders and in the best interests of BC TELECOM and to report back to the Board of Directors of BC TELECOM as to such determination.

The Independent Committee engaged Lawson Lundell Lawson & McIntosh to act as counsel and to provide advice respecting the organization and activities of the Independent Committee and the responsibilities of the members.

With the advice and assistance of counsel, the members of the Independent Committee concluded that they are each independent of GTE and Anglo-Canadian. Each member of the Independent Committee has confirmed that: (i) he or she will not benefit from the business combination in a manner that is different from the BC TELECOM Common Shareholders other than GTE and subsidiaries of GTE (including Anglo-Canadian) (the "Minority Shareholders"), and he or she will not have a material interest in BCT.TELUS, GTE or Anglo-Canadian in the event the business combination is successful; and (ii) he or she is not an employee, insider, director, associate or affiliate of GTE or Anglo-Canadian and has not held any such position within the previous five years.

The Independent Committee engaged CIBC Wood Gundy to serve as its financial advisor. The Independent Committee reviewed the credentials and experience of CIBC Wood Gundy and the question of whether CIBC Wood Gundy is "independent" of BC TELECOM, TELUS, GTE and Anglo-Canadian. The Independent Committee concluded that CIBC Wood Gundy is qualified and independent of BC TELECOM, TELUS, GTE and Anglo-Canadian.

Deliberations

The Independent Committee met a total of seven times. It received a number of management presentations with respect to the business combination, including a strategic overview of the proposed merger with TELUS and its impact on the strategic plan of BC TELECOM. Management also addressed the considerations behind the proposed arrangements with GTE, both with respect to the Heads of Agreement and the future relationship between BCT.TELUS, GTE and Anglo-Canadian. Representatives of TD Securities and J.P. Morgan also attended some of the meetings of the Independent Committee and shared with the Independent Committee the financial advice which they provided to management of BC TELECOM in connection with the business combination. Management and its financial advisors were not present at and did not participate in the deliberations of the Independent Committee.

Representatives of CIBC Wood Gundy attended most of the meetings of the Independent Committee and provided financial advice with respect to the business combination, as well as a fairness opinion (the "CIBC Wood Gundy Opinion"). The Independent Committee conducted a detailed review of a fairness opinion analysis provided by CIBC Wood Gundy, as well as a draft of the CIBC Wood Gundy Opinion. Representatives of CIBC Wood Gundy answered questions from members of the Independent Committee regarding the analysis and the draft opinion to their satisfaction. The Independent Committee concluded that the CIBC Wood Gundy analysis was properly prepared and enabled the Independent Committee to form judgments on financial matters with respect to the business combination and the Heads of Agreement.

The Independent Committee reviewed the proposed transaction documents, including the Arrangement Agreement, Heads of Agreement, Compensation and Option Agreements, Voting Agreement and Long-Term Relationship Agreement with counsel who provided advice as to their content and effect.

In order to arrive at its conclusions and recommendations to the BC TELECOM Board of Directors, the Independent Committee considered the following issues, among others: (i) the strategic considerations relating to a business combination with TELUS, as well as alternative growth strategies; (ii) the importance of the Heads of Agreement; (iii) the proposed ratios for the exchange of BC TELECOM Common Shares and TELUS Common Shares contemplated by the Arrangement Agreement; (iv) the arrangements governing the relationships among BC TELECOM, TELUS and GTE and Anglo-Canadian as expressed in the Voting Agreement and between BCT.TELUS and GTE and Anglo-Canadian after completion of the Arrangement as expressed in the proposed articles of BCT.TELUS and the Long-Term Relationship Agreement; and (v) certain other terms of the Arrangement, including that it will only become effective after a determination by the BC Court that it is fair to the BC TELECOM Common Shareholders and that dissent rights would be granted to BC TELECOM Common Shareholders.

Conclusions and Recommendation

The Independent Committee accepted the rationale for the business combination and the arrangements with GTE as articulated by management and which are included in the discussion under "Benefits of the Transaction". In particular, the Independent Committee concluded that significant strategic benefits would be obtained by a business combination of BC TELECOM and TELUS and by securing access from GTE to intellectual property necessary to conduct the business of BCT.TELUS.

CIBC Wood Gundy provided the Independent Committee with its opinion that the Heads of Agreement is fair from a financial point of view to the Minority Shareholders. CIBC Wood Gundy also provided its opinion that the Share Exchange Ratios and resulting Pro Forma BCT Ownership Percentage (both as defined in the CIBC Wood Gundy Opinion) are fair from a financial point of view to the BC TELECOM Common Shareholders, including the Minority Shareholders.

The proposed business combination includes a number of provisions which will affect the relations of BCT.TELUS with GTE. The Independent Committee concluded that: (i) the provisions were not being established for the purpose of providing an undue advantage to GTE in the affairs of BCT.TELUS; and (ii) as part of the overall business combination, the provisions are fair and reasonable. The Independent Committee concluded that the Heads of Agreement has a proper business purpose which will benefit the Minority Shareholders and BCT.TELUS and is fair and reasonable to the Minority Shareholders.

The Independent Committee concluded that the business combination is fair and reasonable to the BC TELECOM Common Shareholders including the Minority Shareholders.

The Independent Committee therefore concluded that the business combination and the Heads of Agreement, the Long-Term Relationship Agreement and the other agreements with GTE and Anglo-Canadian to be entered into in connection with the Arrangement are in the best interests of BC TELECOM. Accordingly, the Independent Committee unanimously recommended that: (i) the Board of Directors of BC TELECOM authorize the business combination and recommend that the BC TELECOM Common Shareholders vote in favour of a resolution to approve the Arrangement; and (ii) the Board of Directors of BC TELECOM approve the execution and delivery of the Arrangement Agreement, the Voting Agreement, the Compensation and Option Agreements and the Heads of Agreement substantially in the forms presented to the Independent Committee.

Opinions of Financial Advisors to BC TELECOM

Opinions of TD Securities Inc. and J.P. Morgan Securities Inc.

BC TELECOM retained TD Securities and J.P. Morgan Securities to provide financial and strategic advice in connection with the Arrangement and to render opinions as to the fairness of the transaction from a financial point of view.

In connection with the BC TELECOM Board of Directors' consideration of the Arrangement, TD Securities delivered its written opinion, to the effect that, as at October 19, 1998, and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Transaction (as defined in the opinion of TD Securities) is fair from a financial point of view to the BC TELECOM Common Shareholders. In connection with the BC TELECOM Board of Directors' consideration of the Arrangement, J.P. Morgan Securities delivered its written opinion, to the effect that, as at October 19, 1998, and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the consideration to be received by BC TELECOM Common Shareholders in the Arrangement is fair, from a financial point of view, to BC TELECOM and BC TELECOM Common Shareholders.

On October 27, 1998 and again on December 8, 1998, TD Securities and J.P. Morgan Securities reconfirmed their opinions to the Board of Directors of BC TELECOM. The full text of the opinions of TD Securities and J.P. Morgan Securities, each dated December 8, 1998 (the "TD Securities Opinion" and the "J.P. Morgan Securities Opinion"), which set forth the assumptions made, scope of review and limitations, both on the review undertaken and the resultant opinions, are included in Appendix F — Fairness Opinions. **BC TELECOM Shareholders are urged to read the TD Securities Opinion and the J.P. Morgan Securities Opinion carefully in**

their entirety. The foregoing summaries of the TD Securities Opinion and the J.P. Morgan Securities Opinion are qualified in their entirety by reference to the full text of such opinions. The TD Securities Opinion and the J.P. Morgan Securities Opinion were prepared at the request and for the information of the Board of Directors of BC TELECOM and do not constitute a recommendation to any BC TELECOM Shareholder as to how such shareholder should vote with respect to the Arrangement.

TD Securities and J.P. Morgan Securities will receive fees for their respective services in connection with the Arrangement, portions of each of which are contingent upon consummation of the Arrangement. TD Securities, J.P. Morgan Securities and their respective affiliates have, in the past, provided or may, in the ordinary course of their business perform investment banking or financial advisory services for BC TELECOM, TELUS, GTE or any of their respective associates and affiliates. TD Securities and J.P. Morgan Securities have and will receive customary fees for such services. In the ordinary course of business, TD Securities, J.P. Morgan Securities or their affiliates may hold or actively trade the securities of BC TELECOM, TELUS and GTE for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Opinion of CIBC Wood Gundy Securities Inc.

The Independent Committee retained CIBC Wood Gundy on September 18, 1998 to provide financial and strategic advice in connection with the Arrangement and to render an opinion as to the fairness of the transaction from a financial point of view. In the opinion of CIBC Wood Gundy, as at October 19, 1998, the date of its written opinion, and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Heads of Agreement is fair from a financial point of view to the Minority Shareholders and the Share Exchange Ratios and resulting Pro Forma BCT Ownership Percentage (both as defined in the CIBC Wood Gundy Opinion) are fair from a financial point of view to BC TELECOM Common Shareholders, including the Minority Shareholders.

On October 27, 1998, CIBC Wood Gundy reconfirmed its opinion to the Independent Committee. The full text of the CIBC Wood Gundy Opinion, which sets forth the assumptions made, scope of review and limitations on the review undertaken, is included in Appendix F — Fairness Opinions. **BC TELECOM Shareholders are urged to read the CIBC Wood Gundy Opinion carefully in its entirety.** This summary of the CIBC Wood Gundy Opinion is qualified in its entirety by reference to the full text of such opinion. The CIBC Wood Gundy Opinion was prepared at the request and for the information of the Independent Committee and does not constitute a recommendation to any BC TELECOM Shareholder as to how such shareholder should vote with respect to the Arrangement.

CIBC Wood Gundy will receive fees for its services in connection with the Arrangement. CIBC Wood Gundy or its affiliates has, in the past, provided or may, in the ordinary course of its business perform investment banking or financial advisory services for BC TELECOM, TELUS, GTE or any of their respective associates and affiliates. CIBC Wood Gundy has and will receive customary fees for such services. In the ordinary course of business, CIBC Wood Gundy or its affiliates may hold or actively trade in the securities of BC TELECOM, TELUS and GTE for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Recommendation of BC TELECOM Board of Directors

The Board of Directors of BC TELECOM has unanimously determined, based on the considerations noted below, that the terms of the Arrangement are in the best interests of BC TELECOM and are fair to its shareholders as a whole and to the minority shareholders. The BC TELECOM Board of Directors (other than those directors who declared their interest in the Heads of Agreement and abstained from voting to approve the Heads of Agreement) has also unanimously concluded that the terms of the Heads of Agreement are in the best interests of BC TELECOM and are fair to its shareholders as a whole and to the minority shareholders. The Board of Directors unanimously recommends that BC TELECOM Shareholders vote in favour of the

Arrangement and the BC TELECOM Special Resolution. In reaching its conclusion, the Board of Directors considered, among other things, the following:

(a) Management's review of, and advice with respect to, the financial condition, results of operations, business plans and prospects of each of BC TELECOM and TELUS and the prospects of BCT.TELUS after the Arrangement;

(b) The Independent Committee's report and recommendation and the CIBC Wood Gundy Opinion;

(c) The BC TELECOM Exchange Ratio and the TELUS Exchange Ratio in light of the relative trading values of and relative contributions to BCT.TELUS by BC TELECOM and TELUS;

(d) The involvement of GTE in the negotiations with TELUS with respect to the BC TELECOM Exchange Ratio and the TELUS Exchange Ratio and the involvement of TELUS in the negotiations with GTE with respect to the Heads of Agreement, Long-Term Relationship Agreement and Voting Agreement;

(e) The opinion of TD Securities that the Transaction (as defined in the TD Securities Opinion), was fair from a financial point of view to BC TELECOM Common Shareholders, as of the date of such written opinion, and based upon the assumptions made, scope of review and limitations set forth therein. See "Opinions of Financial Advisors to BC TELECOM" and Appendix F — Fairness Opinions — Opinion of TD Securities Inc.;

(f) The opinion of J.P. Morgan Securities that the consideration to be received by BC TELECOM Common Shareholders in connection with the Arrangement was fair, from a financial point of view, to the BC TELECOM Common Shareholders, as of the date of such written opinion, and based upon the assumptions made, scope of review and limitations set forth therein. See "Opinions of Financial Advisors to BC TELECOM" and Appendix F — Fairness Opinions — Opinion of J.P. Morgan Securities Inc.;

(g) The opinion of Arthur Andersen LLP that confirmed the appropriateness of the use of the pooling of interests method of accounting for the Arrangement under Canadian GAAP based on assumptions described in such opinion;

(h) The Arrangement will not proceed unless the BC TELECOM Special Resolution receives the favourable vote of at least 66⅔% of the votes cast at the BC TELECOM Meeting by BC TELECOM Shareholders;

(i) The fact that the BC Court will consider the fairness of the Arrangement to BC TELECOM Shareholders; and

(j) The availability of dissent rights. See "BC TELECOM Shareholders Rights of Dissent" and Appendix D — Procedure to Exercise Dissent Right under the CBCA.

TELUS Transaction Review Committee

Organization of Transaction Review Committee and Terms of Reference

On December 10, 1997, the Board of Directors of TELUS established a Transaction Review Committee and appointed as members James S. Palmer, C.M., Q.C., (Chair), R. John Butler, Q.C., Norm Kimball, Harold P. Milavsky, F.C.A. and Ronald P. Triffo. The committee was established to consider a potential transaction which did not proceed. The Transaction Review Committee met subsequently to consider various alternatives to implement the growth strategy of TELUS.

On September 15, 1998, the Board of Directors of TELUS amended and redefined the mandate of the Transaction Review Committee to deal specifically with the discussions with BC TELECOM and provided to the committee, together with Mr. Palmer, the Chairman of the TELUS Board of Directors, Mr. Triffo and senior management, the mandate to consider and continue discussions regarding a potential merger of TELUS and BC TELECOM.

The Transaction Review Committee was granted the power and authority to engage, at the expense of TELUS, such professional advisors as the Transaction Review Committee considered appropriate, including legal, financial and accounting advisors. The Transaction Review Committee concluded, based on its own discussions and information provided by the financial, accounting and legal advisors of TELUS, that the Transaction Review Committee did not require independent financial or accounting advisors in the circumstances. The Transaction Review Committee did retain the services of Burnet, Duckworth & Palmer to act as counsel to the Transaction Review Committee.

Deliberations

In accordance with its mandate the Transaction Review Committee: (i) reviewed and discussed details of the Arrangement with management of TELUS and TELUS financial and legal advisors; (ii) with the assistance of experts, attempted to assess the value of TELUS and its shares so as to properly consider the Arrangement and its alternatives; (iii) considered and advised the Board of Directors of TELUS as to whether the Arrangement was in the best interest of TELUS shareholders and whether the potential transaction should be recommended to those shareholders; (iv) considered available alternatives to the Arrangement and reported to the Board of Directors of TELUS with respect to any available alternatives; and (v) provided full and complete advice to the Board of Directors with respect to all aspects of its deliberations.

The Transaction Review Committee met on 15 occasions in respect of the business combination, independently and with management and financial and legal advisors in attendance for all or part of certain meetings. In addition to these meetings, members of the Transaction Review Committee spoke to each other numerous times by telephone and in person regarding various aspects of the Arrangement and the TELUS growth strategy and various alternative transactions. The purpose of the various meetings and conversations included: clarification of the duties and responsibilities of the directors in such circumstances; settling the scope and terms of authority of the Transaction Review Committee; consideration of the appropriateness of the appointment of independent advisors to the Transaction Review Committee and the Board of Directors of TELUS; review of various issues arising out of the Arrangement; and review of the information provided to members of the Transaction Review Committee regarding the negotiation of certain governance issues including, but not limited to, selection of the Chairman and Chief Executive Officer of BCT.TELUS, location of the head office of BCT.TELUS, the composition of the Board of Directors of BCT.TELUS after the implementation of the Arrangement and a review of information provided by management and the professional advisors of TELUS in connection with the Arrangement. The Transaction Review Committee or certain of its members also met on several occasions with representatives of Bennett Jones, legal counsel to TELUS, and Burnet, Duckworth & Palmer, legal counsel to the Transaction Review Committee, and the financial advisors to TELUS, RBC DS and Salomon Smith Barney.

Conclusions and Recommendation

The Transaction Review Committee in considering whether to proceed with the business combination considered, among other things: (i) its knowledge, as directors of TELUS, of the operations, assets, prospects and general industry environment in the telecommunications industry; (ii) the business rationale discussed under "Benefits of the Transaction"; (iii) the strategic alternatives available to TELUS; (iv) the business prospects affecting the TELUS Shareholders if the business combination is implemented and the risks in achieving those prospects; (v) the RBC DS Opinion and the Salomon Smith Barney Opinion; (vi) the advice of counsel; and (vii) the advice of Deloitte & Touche LLP. In particular, the Transaction Review Committee concluded that the Arrangement provided a number of strategic benefits to TELUS and was a logical step in TELUS growth strategy.

Based on the foregoing, the Transaction Review Committee concluded that the business combination is in the best interests of TELUS Common Shareholders and recommended that the TELUS Board of Directors resolve to proceed with the business combination.

Opinions of Financial Advisors to TELUS

Opinions of RBC Dominion Securities Inc. and Salomon Smith Barney Inc.

TELUS retained RBC DS and Salomon Smith Barney to provide financial and strategic advice in connection with the Arrangement and to render opinions as to the fairness of the transaction from a financial point of view.

In connection with the TELUS Board of Directors' consideration of the Arrangement, RBC DS delivered its written opinion, to the effect that, as at October 19, 1998, and based upon the assumptions made, scope of review and limitations set forth in its written opinion the Transaction (as defined in the opinion of RBC DS) is fair, from a financial point of view, to the TELUS Common Shareholders. In connection with the TELUS Board of Directors' consideration of the Arrangement, Salomon Smith Barney delivered its written opinion, to the effect that, as at October 19, 1998, and based upon the assumptions made, scope of review and limitations set forth in its written opinion, the Exchange Ratio (as defined in the opinion of Salomon Smith Barney) is fair, from a financial point of view, to the TELUS Common Shareholders.

On October 27, 1998 and again on December 8, 1998, RBC DS and Salomon Smith Barney reconfirmed their opinions to the Board of Directors of TELUS. The full text of the opinions of RBC DS and Salomon Smith Barney, each dated December 8, 1998 (the "RBC DS Opinion" and the "Salomon Smith Barney Opinion"), which set forth the assumptions made, scope of review and limitations, both on the review undertaken and the resultant opinions, are attached and contained in Appendix F — Fairness Opinions. **TELUS Shareholders are urged to read the RBC DS Opinion and the Salomon Smith Barney Opinion carefully in their entirety**. The foregoing summaries of the RBC DS Opinion and the Salomon Smith Barney Opinion are qualified in their entirety by reference to the full text of such opinions. The RBC DS Opinion and the Salomon Smith Barney Opinion were prepared at the request and for the information of the Board of Directors of TELUS and do not constitute a recommendation to any TELUS Shareholder as to how such shareholder should vote with respect to the Arrangement.

RBC DS and Salomon Smith Barney will receive fees for their respective services in connection with the Arrangement, portions of each of which are contingent upon consummation of the Arrangement. RBC DS, Salomon Smith Barney and their respective affiliates have, in the past, provided or may, in the ordinary course of their business, perform investment banking or financial advisory services for TELUS, BC TELECOM, GTE or any of their respective associates or affiliates, RBC DS and Salomon Smith Barney have and will receive customary fees for such services. In the ordinary course of business, RBC DS, Salomon Smith Barney or their affiliates may hold or actively trade the securities of TELUS, BC TELECOM and GTE for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Recommendation of TELUS Board of Directors

The Board of Directors of TELUS has unanimously determined, based on the considerations noted below, that the terms of the business combination are in the best interests of TELUS and are fair to TELUS Common Shareholders, and unanimously recommends that TELUS Shareholders vote in favour of the Arrangement and the TELUS Special Resolution. In reaching its conclusion, the Board of Directors considered, among other things, the following:

(a) Management's review of, and advice with respect to, the financial condition, results of operations, business plans and prospects of each of BC TELECOM and TELUS and the prospects of BCT.TELUS after the Arrangement;

(b) The Transaction Review Committee's report and recommendation;

(c) The TELUS Exchange Ratio and the BC TELECOM Exchange Ratio in light of the relative trading values of and relative contributions to BCT.TELUS by TELUS and BC TELECOM;

(d) The opinion of RBC DS that the Transaction (as defined in the RBC DS Opinion) was fair from a financial point of view to TELUS Common Shareholders, as of the date of such written opinion, and based upon the assumptions made, scope of review and limitations set forth therein. See "Opinions of Financial Advisors to TELUS" and Appendix F — Fairness Opinions — Opinion of RBC Dominion Securities Inc.;

(e) The opinion of Salomon Smith Barney that the Exchange Ratio (as defined in the Salomon Smith Barney Opinion) was fair from a financial point of view to the TELUS Common Shareholders, as of the date of such written opinion, and based upon the assumptions made, scope of review and

limitations set forth therein. See "Opinions of Financial Advisors to TELUS" and Appendix F — Fairness Opinions — Opinion of Salomon Smith Barney Inc.;

(f) The opinion of Deloitte & Touche LLP that confirmed the appropriateness of the use of the pooling of interests method of accounting for the Arrangement under Canadian GAAP based on the assumptions described in such opinion;

(g) The Arrangement will not proceed unless the TELUS Special Resolution receives the favourable vote of at least 66⅔% of the votes cast at the TELUS Meeting by TELUS Shareholders;

(h) The fact that the Alberta Court will consider the fairness of the Arrangement to TELUS Shareholders; and

(i) The availability of dissent rights. See "TELUS Shareholders Rights of Dissent" and Appendix E — Procedure to Exercise Dissent Right under ABCA.

THE EFFECT OF THE ARRANGEMENT ON SHAREHOLDINGS

Share Exchange

Under the Arrangement, the following share exchanges will occur for each Shareholder: (i) 75% of the TELUS Common Shares will be exchanged for BCT.TELUS Common Shares on the basis of the TELUS Exchange Ratio (one to 0.7773) and 25% of the TELUS Common Shares will be exchanged for BCT.TELUS Non-Voting Shares on the basis of the TELUS Exchange Ratio (one to 0.7773); and (ii) 75% of the BC TELECOM Common Shares will be exchanged for BCT.TELUS Common Shares on the basis of the BC TELECOM Exchange Ratio (one to one) and 25% of the BC TELECOM Common Shares will be exchanged for BCT.TELUS Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio (one to one). Except for participants in the BC TELECOM Dividend Reinvestment and Share Purchase Plan, the BC TELECOM Employee Share Purchase Plan, the TELUS Dividend Reinvestment and Share Purchase Plan and the TELUS Employee Share Plan (the "Plans") as of the Effective Date, no fractional BCT.TELUS Shares will be issued. Shareholders will receive cash in lieu of fractional shares. For a description of the procedure for exchanging BC TELECOM Common Shares and TELUS Common Shares, see "Procedures for Exchange of Share Certificates".

The effect of the Arrangement on the holdings of BC TELECOM Common Shareholders and TELUS Common Shareholders (who are not members of the Plans) is illustrated below based on a shareholding of 150 shares immediately prior to the Arrangement.

Holdings Immediately Prior to the Arrangement	Holdings Immediately After the Arrangement
150 BC TELECOM Common Shares	112 BCT.TELUS Common Shares and 37 BCT.TELUS Non-Voting Shares[1][3]
150 TELUS Common Shares	87 BCT.TELUS Common Shares and 29 BCT.TELUS Non-Voting Shares[2][3]

Notes:

(1) A holder of 150 BC TELECOM Common Shares would be entitled to 112.5 BCT.TELUS Common Shares but will receive cash in lieu of the 0.5 BCT.TELUS Common Shares fractional amount and would be entitled to 37.50 BCT.TELUS Non-Voting Shares but will receive cash in lieu of the 0.5 BCT.TELUS Non-Voting Shares fractional amount.

(2) A holder of 150 TELUS Common Shares would be entitled to 87.44625 BCT.TELUS Common Shares but will receive cash in lieu of the 0.44625 BCT.TELUS Common Shares fractional amount and would be entitled to 29.14875 BCT.TELUS Non-Voting Shares but will receive cash in lieu of the 0.14875 BCT.TELUS Non-Voting Shares fractional amount.

(3) The amount of cash (rounded to the nearest whole cent) will equal the product obtained when such fractions are multiplied by the weighted average trading price for BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares, as the case may be, on the TSE for the first three trading days on which the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares are traded on an issued basis following the Effective Date.

Option Exchange

For the BC TELECOM Optionholders, each of the then outstanding options under the BC TELECOM Option Plans will be converted into an option to purchase: (i) the number of BCT.TELUS Common Shares determined by multiplying the number of BC TELECOM Common Shares subject to such option under the BC TELECOM Option Plans at the Effective Time (the "Outstanding BC TELECOM Options") by 75% of the BC TELECOM Exchange Ratio; and (ii) the number of BCT.TELUS Non-Voting Shares determined by multiplying the Outstanding BC TELECOM Options by 25% of the BC TELECOM Exchange Ratio. All new options will be exercisable at an exercise price per BCT.TELUS Share equal to the amount determined by dividing the exercise price per share of the old option immediately prior to the Effective Time by the BC TELECOM Exchange Ratio. If the new option is exercised, such exercise must be made for the number of BCT.TELUS Common Shares together with the BCT.TELUS Non-Voting Shares for each BC TELECOM Common Share that the BC TELECOM Optionholder would have been entitled to receive and not separately for any class of BCT.TELUS Shares. If the foregoing calculation results in a new option being exercisable for a fraction of a BCT.TELUS Common Share or BCT.TELUS Non-Voting Share, as the case may be, then the number of BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares subject to the new option will be rounded down to the nearest whole number of shares, without adjustment to the exercise price.

The options under the BC TELECOM Option Plan as so converted will, without any further action on the part of the BC TELECOM Optionholders, be further modified as necessary to effect such conversion, provided, however, the term, exercisability, vesting schedule, and all other terms and conditions of the options under the BC TELECOM Option Plans will otherwise be unchanged and will operate in accordance with their terms. The conversion will take place and be implemented on a basis that the difference between the fair market value of the BC TELECOM Common Shares which are subject to the outstanding options and the amount payable upon the exercise of such outstanding options, determined immediately before such conversion, will be at least equal to the difference between the fair market value of the BCT.TELUS Shares which are subject to the newly created options and the amount payable upon the exercise of such newly created options, determined immediately after such conversion. The obligations of BC TELECOM under the BC TELECOM Option Plans as so converted will be assumed by BCT.TELUS and BCT.TELUS will be substituted for BC TELECOM as the sponsor of the BC TELECOM Option Plans.

For the TELUS Optionholders, each of the then outstanding options under the TELUS Option Plans will be converted into an option to purchase: (i) the number of BCT.TELUS Common Shares determined by multiplying the number of TELUS Common Shares subject to such option under the TELUS Option Plans at the Effective Time (the "Outstanding TELUS Options") by 75% of the TELUS Exchange Ratio; and (ii) the number of BCT.TELUS Non-Voting Shares determined by multiplying the Outstanding TELUS Options by 25% of the TELUS Exchange Ratio. All new options will be exercisable at an exercise price per BCT.TELUS Share equal to the amount determined by dividing the exercise price per share of the old option immediately prior to the Effective Time by the TELUS Exchange Ratio. If the new option is exercised, such exercise must be made for the number of BCT.TELUS Common Shares together with the BCT.TELUS Non-Voting Shares for each TELUS Common Share that the TELUS Optionholder would have been entitled to receive and not separately for any class of BCT.TELUS Shares. If the foregoing calculation results in a new option being exercisable for a fraction of a BCT.TELUS Common Share or BCT.TELUS Non-Voting Share, as the case may be, then the number of BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares subject to the new option will be rounded down to the nearest whole number of shares, without adjustment to the exercise price.

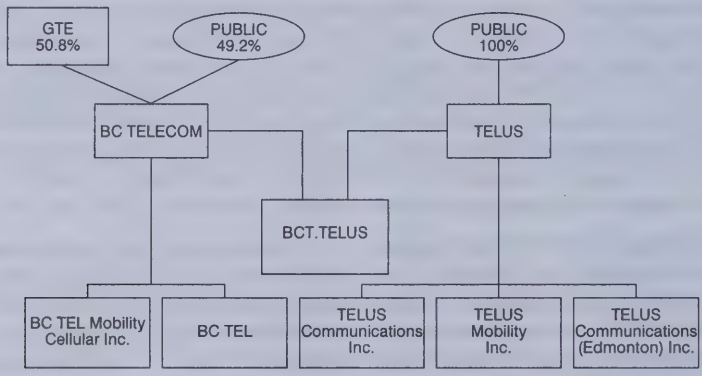
The options under the TELUS Option Plan as so converted will, without any further action on the part of the TELUS Optionholders, be further modified as necessary to effect such conversion, provided, however, the term, exercisability, vesting schedule, and all other terms and conditions of the options under the TELUS Option Plans will otherwise be unchanged and will operate in accordance with their terms. The conversion will take place and be implemented on a basis that the difference between the fair market value of the TELUS Common Shares which are subject to the outstanding options and the amount payable upon the exercise of such outstanding options, determined immediately before such conversion, will be at least equal to the difference between the fair market value of the BCT.TELUS Shares which are subject to the newly created options and the amount payable upon the exercise of such newly created options, determined immediately after such conversion.

The obligations of TELUS under the TELUS Option Plans as so converted will be assumed by BCT.TELUS and BCT.TELUS will be substituted for TELUS as the sponsor of the TELUS Option Plans.

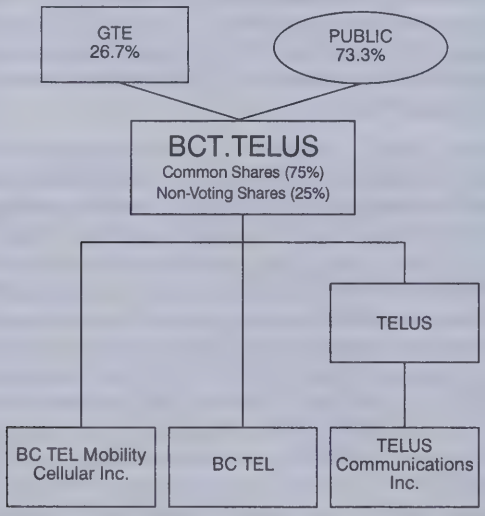
Schematic Representations of the Arrangement Process

The following schematics have been simplified to illustrate the Arrangement process and material subsidiaries:

I. ***BC TELECOM and TELUS as of Date of the Joint Circular***



II. ***BC TELECOM, TELUS and BCT.TELUS Following the Arrangement***[(1)(2)(3)]



Notes:

(1) BC TELECOM is wound up into BCT.TELUS pursuant to the Arrangement.

(2) Pursuant to an internal reorganization to be effective January 1, 1999, the operations of TELUS Communications Inc., TELUS Communications (Edmonton) Inc., TELUS Mobility Inc. and certain other TELUS subsidiaries will be combined in one company to be called TELUS Communications Inc. See "Information Relating to TELUS — Recent Developments — Internal Reorganization".

(3) All the subsidiaries indicated above will be wholly-owned by BCT.TELUS. TELUS Communications Inc. is incorporated pursuant to the ABCA and BC TEL Mobility Cellular Inc. and BC TEL are incorporated pursuant to the CBCA.

BCT.TELUS COMMUNICATIONS INC.

Business Strategy

The BCT.TELUS business combination developed from a strategy to maximize shareholder value and respond to the challenges imposed by rapid technological innovation, deregulation, convergence, globalization and increased competition.

BCT.TELUS will be a combination of the second and third largest domestic telecommunications providers in Canada. As the premier telecommunications provider in its serving territory, BCT.TELUS will focus its business efforts on:

- enhancing its core business and market position;
- successfully integrating its business operations to realize the synergies available from the business combination; and
- implementing a national growth strategy.

BCT.TELUS will concentrate on the successful continuation of its core business operations and fulfillment of its customers' telecommunications requirements. Core market and business strengths will be enhanced as BCT.TELUS realizes synergies from the business combination of BC TELECOM and TELUS and benefits from reduced costs in a competitive environment.

The scale and scope of BCT.TELUS will enable it to grow its existing businesses and expand into emerging communications businesses faster than either BC TELECOM or TELUS could achieve individually.

The current telecommunications market in British Columbia and Alberta represents approximately 28% of the revenues of the total Canadian telecommunications market, providing significant potential for revenue growth in the national market. Growth outside of British Columbia and Alberta will be facilitated by BCT.TELUS:

- strong financial capacity;
- expertise in telecommunications, provided by a highly skilled and motivated workforce;
- proven ability to provide excellent customer service;
- access to GTE technology, branding and marketing capabilities; and
- access to transmission capacity in Ontario and Québec and to key centres in the United States through the acquisition of fibre optic systems.

Fibre Acquisition

On October 8 and 10, 1998, BC TELECOM entered into agreements to acquire rights in fibre optic systems to be constructed by Ledcor Industries Limited ("Ledcor") and by its affiliate, Pacific Fiber Link, LLC. ("PFL"). These agreements will be assumed by BCT.TELUS as part of the Arrangement. These systems will provide BCT.TELUS with the capability to access markets in Eastern Canada and various networks in the United States, including those of GTE.

Under the agreement with Ledcor, BC TELECOM agreed to purchase, for an initial 20 year term, rights of use to 12 strands of fibre within Ontario and Québec (Toronto to Detroit, Toronto to Ottawa, Ottawa to Montreal, Toronto to Montreal, Montreal to Québec City) as well as cross-border links from Montreal to Albany, Toronto to Buffalo and Buffalo to Albany. Under the agreement with PFL, PFL agreed to grant to BC TELECOM, for an initial 25 year term, renewable for an additional 25 years, an indefeasible right of use to 12 strands of dark fibre within a fibre optic system to be constructed by PFL between Seattle and the Canada-U.S. border. These systems are anticipated to be available by December 1999. The agreement also includes an option to acquire an indefeasible right of use to 12 additional strands of dark fibre between Vancouver and the Canada-U.S. border. BC TELECOM has also obtained an option to purchase additional rights in fibre optic systems between Québec City and Halifax, Calgary and Edmonton and Albany and New York City.

Definitive agreements are anticipated to be executed prior to the Effective Date.

BC TELECOM and TELUS are continuing to consider various opportunities to acquire or construct additional fibre optic systems in furtherance of BCT.TELUS growth strategy.

Business Activities

Principal Services

BCT.TELUS will provide a full range of communications services. Voice and data communications, carried over both wireline and wireless networks, will be the major lines of business for BCT.TELUS.

BCT.TELUS will initially carry on business throughout British Columbia and Alberta. Population levels and economic growth will be factors in BCT.TELUS revenues. At December 31, 1997, the two provinces had a combined population of 6.8 million representing 22.4% of Canada's population and represented approximately 25% of Canada's Gross Domestic Product. As part of its national growth strategy, BCT.TELUS will expand into new geographic areas and emerging communications businesses.

Wireline Services

Local Services

Local services allow residential and business customers to complete calls in their local calling areas and to access long distance networks, cellular networks and the internet. Virtually all homes and businesses in the BCT.TELUS serving territories will have access to some or all of its local services. In addition to local calling, local services will generally include: enhanced calling features; terminal equipment sales, leasing and rental; Centrex for business customers; public pay telephones; and competitive long distance carrier access.

Long Distance Services

Long distance services connect customers in different local calling areas. BCT.TELUS will offer its residential customers a number of savings plans and billing options, and will offer its business customers a range of long distance savings plans, billing options and call processing options.

Data Services

Data services are expected to be a significant revenue growth opportunity for BCT.TELUS in both the business and residential segments. Traditional data services to be offered by BCT.TELUS will be services such as circuit switched, packet switched and dedicated private lines.

BCT.TELUS will also offer enhanced data services, which are data services with wider appeal and greater functionality and growth potential than the traditional services. The major services offered will be internet access, private intranets, wide area network outsourcing, and electronic commerce.

Wireless Services

BCT.TELUS will be the third largest cellular provider in Canada, offering both analog and digital services. BCT.TELUS cellular customers will be able to roam throughout Canada through its membership in Mobility Canada, and throughout North America through Mobility Canada's arrangements with other cellular providers.

BCT.TELUS will provide paging services (tone, numeric, alphanumeric and voice paging) with full North American coverage.

Other Services

BCT.TELUS will offer advertising services (such as yellow pages) to customers primarily in Alberta. BCT.TELUS will also provide information technology services to customers primarily in British Columbia through its 75% ownership of ISM Information Systems Management (B.C.) Corporation ("ISM(B.C.)").

Key Operating Statistics

The following table displays certain key operating statistics of BC TELECOM and TELUS for the three years ended December 31, 1997 and for the nine months ended September 30, 1998:

	September 30, 1998		December 31					
			1997		1996		1995	
	BC TELECOM	TELUS	BC TELECOM	TELUS	BC TELECOM	TELUS	BC TELECOM	TELUS
Network Access Lines (000s)	2,555	1,905	2,518	1,849	2,432	1,766	2,340	1,702
Long Distance Minutes (millions)	1,890	1,792	2,617	2,139	2,586	2,035	2,627	2,114
Cellular Subscribers (000s)	456	453	407	409	301	328	219	238
Paging Subscribers (000s)	131	59	122	45	102	33	89	28
Internet Subscribers (000s)	80	107	54	68	30	31	—	5

Directors

Pursuant to the Plan of Arrangement, the proposed directors of BCT.TELUS will be the individuals referred to below, who shall hold office until the first annual general meeting of shareholders of BCT.TELUS or until their respective successors have been duly elected or appointed. BCT.TELUS will have an audit committee, corporate governance committee, strategic policy committee, human resources committee and pension benefits committee. Brian A. Canfield is expected to be the Chairman of the Board of Directors of BCT.TELUS.

Directors of BCT.TELUS; Name and Municipality of Residence	Principal Occupation	Director of BC TELECOM or TELUS Since	BC TELECOM Common Shares/ TELUS Common Shares Held
R. John Butler, Q.C. Edmonton, Alberta	Counsel, Bryan and Company (law firm)	1995	1,634[2]
Brian A. Canfield Point Roberts, Washington	Chairman of BC TELECOM and BC TEL	1993	10,169[3]
Pierre Choquette West Vancouver, British Columbia	President and Chief Executive Officer, Methanex Corporation (marketer and producer of methanol)	1997	1,000[3]
G.N. (Mel) Cooper, C.M., O.B.C. Victoria, British Columbia	Chairman and Chief Executive Officer, Seacoast Communications Group Inc. (broadcasting)	1993	3,000[3]
David L. Emerson Vancouver, British Columbia	President and Chief Executive Officer, Canfor Corporation (integrated forest products company)	1996	500[3]
Iain J. Harris Vancouver, British Columbia	Chairman and Chief Executive Officer, Summit Holdings Ltd. (investment and holding company)	1997	1,000[3]
Norm Kimball Calgary, Alberta	President, L & N Investments Ltd. (private holding company)	1991	1,634[2]

Directors of BCT.TELUS; Name and Municipality of Residence	Principal Occupation	Director of BC TELECOM or TELUS Since	BC TELECOM Common Shares/ TELUS Common Shares Held
Richard J. LeLacheur Edmonton, Alberta	Chairman, Workers' Compensation Board — Alberta	1991	1,634(2)
Michael T. Masin Greenwich, Connecticut	Vice Chairman & President — International, GTE Corporation (consolidated group of telecommunications companies)	1995	2,002(1)
Harold P. Milavsky, F.C.A. Calgary, Alberta	Chairman, Quantico Capital Corp. (investment company)	1991	6,042(2)
Walter B. O'Donoghue, Q.C. Calgary, Alberta	Partner, Bennett Jones (law firm)	1991	4,209(2)
George K. Petty Edmonton, Alberta	President and Chief Executive Officer, TELUS Corporation	1994	9,666(2)
Fares F. Salloum Dallas, Texas	Senior Vice-President — International Operations, GTE Service Corporation (member of consolidated group of telecommunications companies)	1998	2,002(1)
Geraldine B. Sinclair Vancouver, British Columbia	President and Chief Executive Officer, NCompass Labs Inc. (developer of internet software) and Executive Director, ExCITE Centre (multimedia research and development centre)	1998	150(1)
Ronald P. Triffo Edmonton, Alberta	Chairman, Stantec Inc. (engineering firm)	1995	2,634(2)
Donald P. Woodley Orangeville, Ontario	President, Oracle Corporation Canada Inc. (software company)	1998	1,093(2)

Notes:

(1) BC TELECOM Common Shares.

(2) TELUS Common Shares.

All of the proposed directors of BCT.TELUS have held the principal occupations set forth above or executive positions with the same companies or firms referred to, or with affiliates or predecessors thereof, for the past five years except as follows: Pierre Choquette who prior to 1994 was President of Novacorp International Inc. (petrochemical company) and in 1994 was appointed President and Chief Executive Officer of Methanex Corporation; David L. Emerson who prior to January 1998 was President and Chief Executive Officer of the Vancouver International Airport Authority; Iain J. Harris who prior to 1994 was President and Chief Executive Officer of Air BC Limited (airline company); Richard J. LeLacheur was the President and Chief Executive Officer of Economic Development Edmonton from August 1992 to February 1998; George K. Petty was Vice-President of Global Business Services for AT&T (telecommunications company) from January 1993 to October 1994; Fares F. Salloum who prior to July 1995 was Vice-President, Emerging Services of BC TEL and from July 1995 to June 1997 was Executive Vice-President, Communication Services of BC TELECOM and BC TEL; and Donald P. Woodley was the President of Compaq Canada Inc. (computer technology company) from September 1987 to January 1997.

The directors' compensation will be determined by the Board of Directors of BCT.TELUS based upon a recommendation of the governance committee thereof and is expected to be a blend of current compensation regimes of BC TELECOM and TELUS which are both competitive with directors' compensation of similarly sized companies.

Executive Officers

It is expected that the individuals named below will be appointed to serve in the following capacities:

Name	Position to be held with BCT.TELUS
George K. Petty	President and Chief Executive Officer
George N. Addy	Executive Vice President, Chief General Counsel and Corporate Secretary
Gary W. Goertz	Executive Vice President, Finance and Chief Financial Officer
James L. Grey	Executive Vice President and President, Advanced Communications
Ian D. Mansfield	Executive Vice President and President, Wireline Communications
James W. Peters	Executive Vice President, Corporate Development and Emerging Businesses
Paul D. Smith	Senior Vice President, Human Resources
Harry W. Truderung	Executive Vice President and President, Mobility

All of the officers above have been engaged for the past five years in the specified present principal occupations or in other executive capacities with BC TELECOM or TELUS, their subsidiaries, affiliates or predecessors thereof, except as follows: George K. Petty as indicated above; Gary W. Goertz was the principal of Goertz & Associates (consulting firm) from July 1992 until March 1994; and George N. Addy was the Director of Investigation and Research, Competition Bureau from December 1993 to June 1996.

Dual Head Offices

BCT.TELUS will maintain dual head offices in Burnaby, British Columbia and Edmonton, Alberta until otherwise determined by the Board of Directors of BCT.TELUS.

Corporate Governance

Both the Boards of Directors and the management of each of BC TELECOM and TELUS recognize the inherent value of having appropriate structures and procedures in place to ensure that the Board of Directors of BCT.TELUS can function effectively and independently of management. Accordingly, an *ad hoc* strategic committee composed of two directors from each of BC TELECOM and TELUS intends to recommend to the Board of Directors of BCT.TELUS the adoption of a number of policies to be effective as of the Effective Date which are aimed at ensuring the immediate effectiveness of its corporate governance practices. In adopting such policies, it is expected that the Board of Directors of BCT.TELUS will consider the corporate governance practices of BC TELECOM attached in Schedule A to the BC TELECOM Information Circular dated February 26, 1998 as well as the corporate governance practices of TELUS attached in Schedule A to the TELUS Information Circular dated March 17, 1998.

Principal Holders of Securities

To the knowledge of the senior management and directors of BC TELECOM, there are no shareholders of BC TELECOM who would, had the Arrangement occurred on the BC TELECOM Record Date, own of record or beneficially, directly or indirectly, or exercise control or direction over, in excess of 10% of the BCT.TELUS Common Shares other than Anglo-Canadian, which is beneficially owned and controlled as to 100% of its common shares by GTE of Irving, Texas, and The Canadian Depository for Securities Limited, which holds of record in excess of 10% of such shares for the benefit of its participants. Anglo-Canadian will own 47,357,957 BCT.TELUS Common Shares which will represent 26.7% of the outstanding BCT.TELUS Common

Shares at the Effective Date. See "Details of the Arrangement and Related Transactions — Relationship between GTE and BCT.TELUS After the Arrangement". To the knowledge of the senior management and directors of TELUS, there are no shareholders of TELUS who would, had the Arrangement occurred on the TELUS Record Date, own of record or beneficially, directly or indirectly, or exercise control or direction over, in excess of 10% of the BCT.TELUS Common Shares other than The Canadian Depository for Securities Limited, which holds of record in excess of 10% of such shares for the benefit of its participants.

As of the date hereof, the proposed directors and officers of BCT.TELUS as a group beneficially own, directly or indirectly, or exercise control or direction over less than 1% of the outstanding BC TELECOM Common Shares and less than 1% of the outstanding TELUS Common Shares and, after the Arrangement, will hold less than 1% of the outstanding BCT.TELUS Common Shares and less than 1% of the outstanding BCT.TELUS Non-Voting Shares. The information with respect to share ownership, not being within the knowledge of either BC TELECOM or TELUS, has been furnished by the respective directors and officers individually.

Auditors, Transfer Agent and Registrar

As at the Effective Date, the auditors of BCT.TELUS will be Arthur Andersen LLP, Chartered Accountants, Vancouver, British Columbia. The transfer agent and registrar of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares will be Montreal Trust Company of Canada, with offices in Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax.

Dividends

It is anticipated that BCT.TELUS will initially pay annual dividends on both BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares in an amount equal to $1.40 per share, commencing with a quarterly payment of $0.35 per share to be paid in respect of the first quarter of 1999. However, there can be no assurance that such dividends will be declared or continued. The declaration and payment of dividends is at the discretion of the Board of Directors of BCT.TELUS which will consider the earnings, capital requirements and financial condition of BCT.TELUS and other relevant factors.

Pro Forma Combined Consolidated Capitalization of BCT.TELUS

The following table and notes set forth the combined consolidated capitalization of BC TELECOM and TELUS as at September 30, 1998 and the pro forma combined consolidated capitalization of BCT.TELUS as at September 30, 1998. This table should be read in conjunction with the BC TELECOM and TELUS unaudited interim comparative consolidated financial statements attached to this Joint Circular in Appendix G and H,

respectively, and BCT.TELUS pro forma unaudited consolidated financial statements (including the notes thereto) attached to this Joint Circular in Appendix I:

BCT.TELUS Pro Forma Combined Consolidated Capitalization

(in millions of dollars)
(unaudited)

	September 30, 1998		Pro forma	September 30, 1998
	BC TELECOM	TELUS	Adjustments	BCT.TELUS
Indebtedness				
Bank indebtedness[1]	—	32.8	(32.8)	—
Debt due within one year	477.5	283.2		760.7
Long-term debt	1,054.5	678.8		1,733.3
Sinking fund assets	—	(122.1)		(122.1)
Total debt, net of sinking fund assets	1,532.0	872.7	(32.8)	2,371.9
Shareholders' equity				
Common equity				
Capital stock				
Common shares:				
BC TELECOM issued and outstanding (unlimited shares authorized)[2]: 124,241,266	1,206.8	—	(1,206.8)	—
TELUS issued and outstanding (unlimited shares authorized)[2]: 144,512,470	—	1,563.1	(1,563.1)	—
BCT.TELUS issued and outstanding (1,000,000,000 shares authorized)[3]: 177,428,107	—	—	2,077.4	2,077.4
Non-Voting Shares:				
BCT.TELUS issued and outstanding (1,000,000,000 shares authorized)[4]: 59,142,702	—	—	692.5	692.5
Retained earnings[5]	677.0	780.4	(52.0)	1,405.4
Contributed surplus	7.3	—		7.3
Total common equity	1,891.1	2,343.5	(52.0)	4,182.6
Preference and preferred shares				
BC TEL Preference and preferred shares, cumulative	69.7	—	—	69.7
BCT.TELUS First preferred (1,000,000,000 shares authorized)	—	—	—	—
BCT.TELUS Second preferred (1,000,000,000 shares authorized)	—	—	—	—
Total Preference and preferred shares	69.7	—	—	69.7
Total shareholders' equity	1,960.8	2,343.5	(52.0)	4,252.3
Total capitalization	3,492.8	3,216.2	(84.8)	6,624.2

Notes and assumptions:

(1) Pro forma bank indebtedness has been netted against pro forma cash and short-term investments.

(2) Excludes common shares issuable upon the exercise of stock options.

(3) BC TELECOM and TELUS outstanding shares converted at 0.75 times the respective share exchange ratios and excludes 2,227,988 common shares issuable upon the exercise of stock options.

(4) BC TELECOM and TELUS outstanding shares converted at 0.25 times the respective share exchange ratios and excludes 742,651 non-voting shares issuable upon the exercise of stock options.

(5) Includes $52.0 million in costs for completing the Arrangement.

Stock Options

The following table indicates the number of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares that will be under option by the proposed directors and executive officers as a group and others upon the Arrangement becoming effective.

Group	Number of BCT.TELUS Common Shares under Option	Number of BCT.TELUS Non-Voting Shares under Option
Directors[1]	274,410	91,468
Executive Officers[2]	420,832	140,274
Others[3]	1,529,113	509,698

Notes:

(1) Includes 15 of the 16 proposed directors of BCT.TELUS referred to under the heading "Directors". George K. Petty's options are included under Executive Officers.

(2) Includes the eight proposed executive officers of BCT.TELUS referred to under the heading "Executive Officers".

(3) Includes 249 additional officers and employees of BCT.TELUS and its subsidiaries, upon the Arrangement becoming effective.

(4) Exercise prices will be confirmed upon the Arrangement becoming effective. See "The Effect of the Arrangement on Shareholdings — Option Exchange".

(5) No market values of the securities under option are available as the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares are currently not listed or posted for trading.

(6) Expiry dates are not determinable as change of control provisions may trigger acceleration in certain options.

Pro Forma Interest and Asset Coverage

The following pro forma asset coverage ratio has been calculated as at September 30, 1998 based on BCT.TELUS pro forma unaudited combined consolidated financial information. The pro forma interest coverage ratio has been calculated based on the twelve months ended September 30, 1998.

	BCT.TELUS September 30, 1998
Pro Forma Interest Coverage	5.0
Pro Forma Net Tangible Asset Coverage:	
Per $1,000 principal amount of long-term debt (before deduction of recorded deferred income taxes)	2.6
Per $1,000 principal amount of long-term debt (after deduction of recorded deferred income taxes)	2.6

Memorandum and Articles of BCT.TELUS

This summary of the Memorandum and Articles of BCT.TELUS is qualified in its entirety by reference to the full text of such Memorandum and Articles which is attached and contained in Appendix B.

Share Capital and Rights of Conversion

The authorized capital of BCT.TELUS will consist of 4,000,000,000 shares divided into 1,000,000,000 Common Shares without par value, 1,000,000,000 Non-Voting Shares without par value, 1,000,000,000 First Preferred Shares without par value and 1,000,000,000 Second Preferred Shares without par value. Immediately prior to the Effective Date there will be three Common Shares issued and outstanding. One Common Share will be held by BC TELECOM and two Common Shares will be held by TELUS. These three Common Shares will be cancelled as part of the Arrangement. See "Details of the Arrangement and Related Transactions — Arrangement Steps".

The following is a summary of the material provisions of the share capital of BCT.TELUS:

Common Shares and Non-Voting Shares Without Par Value. Subject to the prior rights of the holders of First Preferred Shares and Second Preferred Shares, the Common Shares and the Non-Voting Shares are entitled to participate equally with each other with respect to the payment of dividends and the right to participate in the distribution of assets of BCT.TELUS on the liquidation, dissolution or winding up of BCT.TELUS.

Neither the Common Shares nor the Non-Voting Shares can be subdivided, consolidated, reclassified or otherwise changed unless the other class is changed in the same manner.

The holders of the Common Shares are entitled to receive notice of, attend, be heard and vote at any general meeting of the members of BCT.TELUS on the basis of one vote per Common Share held. The holders of Non-Voting Shares are entitled to receive notice of, attend and be heard at all general meetings of the members of BCT.TELUS and are entitled to receive all notices of meetings, information circulars and other written information from BCT.TELUS that the holders of Common Shares are entitled to receive from BCT.TELUS, but are not entitled to vote at such general meetings unless otherwise required by law. See "Details of the Arrangement and Related Transactions — Comparisons between the BCCA and each of the CBCA and the ABCA".

In order to ensure that the holders of the Non-Voting Shares can participate in any offer which is made to the holders of the Common Shares (but is not made to the holders of Non-Voting Shares on the same terms), which offer must by reason of applicable securities legislation or the requirements of a stock exchange on which the Common Shares are listed be made to all or substantially all the holders of Common Shares who are in any province of Canada to which the requirement applies (an "Exclusionary Offer"), each holder of Non-Voting Shares will, for the purposes of the Exclusionary Offer only, be permitted to convert all or part of the Non-Voting Shares held into an equivalent number of Common Shares during the applicable conversion period. In certain circumstances (namely, the delivery of certificates, at specified times, by holders of 50% or more of the issued and outstanding Common Shares to the effect that they will not, among other things, tender to such Exclusionary Offer or make an Exclusionary Offer), these conversion rights will not come into effect.

If the *Telecommunications Act* and the regulations thereunder are changed so that there is no restriction on any non-Canadians holding Common Shares, holders of Non-Voting Shares will have the right to convert all or part of their Non-Voting Shares into Common Shares on a one for one basis, and BCT.TELUS will have the right to require holders of Non-Voting Shares who do not make such an election to convert such shares into an equivalent number of Common Shares.

BCT.TELUS will provide notice to each holder of Common Shares before a general meeting of members at which holders of Non-Voting Shares will be entitled to vote as a class. In such event, holders of Common Shares will have the right to convert all or part of their Common Shares into Non-Voting Shares on a one for one basis provided and to the extent that BCT.TELUS and its subsidiaries remain in compliance with the foreign ownership provisions of the *Telecommunications Act* and the regulations thereunder.

The Common Shares are subject to constraints on transfer to ensure BCT.TELUS ongoing compliance with the foreign ownership provisions of the *Telecommunications Act* and the regulations thereunder. As well, holders of Common Shares will have the right, if approved by the Board of Directors of BCT.TELUS, to convert Common Shares into Non-Voting Shares in order that BCT.TELUS be in compliance with the foreign ownership provisions of the *Telecommunications Act* and the regulations thereunder.

The Articles and the capital of BCT.TELUS can be amended by special resolution as defined in the Articles and BCCA. In addition, the BCCA provides for other specific matters that require approval by special resolution. See "Details of the Arrangement and Related Transactions — Comparisons between the BCCA and each of the CBCA and ABCA — Special Resolutions".

In all other respects, each Common Share and each Non-Voting Share have the same rights and attributes.

First Preferred Shares. The First Preferred Shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges,

restrictions and conditions which the Board of Directors of BCT.TELUS determines by resolution and subject to filing an amendment to the Memorandum and Articles of BCT.TELUS. No series of First Preferred Shares may have attached thereto the right to vote at any general meeting of BCT.TELUS or the right to be convertible into or exchangeable for Common Shares of BCT.TELUS. Except as required by law, the holders of the First Preferred Shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of BCT.TELUS. The First Preferred Shares rank prior to the Second Preferred Shares, Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of BCT.TELUS.

Second Preferred Shares. The Second Preferred Shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges, restrictions and conditions, which the Board of Directors of BCT.TELUS determines by resolution and subject to filing an amendment to the Memorandum and Articles of BCT.TELUS. No series of Second Preferred Shares may have attached thereto the right to vote at any general meeting of BCT.TELUS or the right to be convertible into or exchangeable for Common Shares of BCT.TELUS. Except as required by law, the holders of the Second Preferred Shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of BCT.TELUS. The Second Preferred Shares rank, subject to the prior rights of the holders of the First Preferred Shares, prior to the Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of BCT.TELUS.

Cumulative Voting

Cumulative voting is a mechanism which permits proportional board representation of significant shareholder minorities. In the absence of cumulative voting a shareholder is entitled to cast one vote for each share held. Under cumulative voting, directors are elected through a rule that permits a sufficiently large minority to win one or more seats. For each voting share held, a shareholder will receive votes equal to the number of directors to be elected (i.e., 16 votes), and may cast all votes in favour of one candidate or distribute the votes among the candidates as the shareholder chooses. The greater the number of directors to be elected, the smaller the minority shareholding necessary to elect one director. The Articles of BCT.TELUS provide for cumulative voting. Based on the anticipated shareholding of Anglo-Canadian in BCT.TELUS on completion of the Arrangement, GTE will have the ability to elect at least four directors of BCT.TELUS. Neither BC TELECOM nor TELUS have cumulative voting provisions contained in their Articles.

President and Chief Executive Officer

For 10 years following the Effective Date and not more than once in any 12 month period, any four directors of BCT.TELUS may give notice that they have lost confidence in the President and Chief Executive Officer, who shall be removed 30 days thereafter unless at least 75% of the directors, excluding the President and Chief Executive Officer, attending and voting at a meeting, vote to retain the President and Chief Executive Officer. Any replacement President and Chief Executive Officer must be approved by a favourable vote of at least 75% of the directors attending and voting at a meeting, excluding the current President and Chief Executive Officer.

Ownership and Voting Restrictions

Under current law, non-Canadian shareholders may not beneficially own or control in aggregate more than 33⅓% of the issued and outstanding BCT.TELUS Common Shares. In order to comply with this ownership requirement, BCT.TELUS may refuse to: (i) accept any subscription for voting shares from any non-Canadian; (ii) issue any voting shares to any non-Canadian; (iii) register or otherwise recognize the transfer of any voting shares from any Canadian to any non-Canadian; or (iv) purchase or otherwise acquire any voting shares.

In the event of a contravention of this ownership requirement such that more than 33⅓% of the voting shares are beneficially owned or controlled by non-Canadians, BCT.TELUS may require certain non-Canadian registered holders of the voting shares in excess of 33⅓% of the issued and outstanding voting shares in BCT.TELUS to dispose of their voting shares (the "excess voting shares") or, if approved by the Board of

Directors, to convert the excess voting shares to BCT.TELUS Non-Voting Shares, and BCT.TELUS may suspend all rights of the holders of the excess voting shares so that the proportion of voting shares beneficially owned and controlled by non-Canadians and with respect to which voting rights are not suspended, is reduced to not more than 33⅓% of the issued and outstanding voting shares of BCT.TELUS.

Registered holders subject to the requirement to dispose of their voting shares or whose voting rights are suspended will be chosen on the basis of reverse order to the order of registration of all non-Canadians. For the purpose of determining the excess voting shares, if any, on the Effective Date as part of the Arrangement, the date of registration of those excess voting shares of non-Canadian shareholders will be the date non-Canadian shareholders were registered with either BC TELECOM or TELUS with certain exceptions as provided in the Articles.

In the event that a non-Canadian shareholder fails to sell or convert the excess voting shares as required, BCT.TELUS may sell such shares on behalf of the holder on the principal stock exchange on which such shares are traded or, under certain circumstances, may convert, repurchase or redeem the excess voting shares. The net proceeds of the sale (less certain administrative fees) shall be made payable to the registered holder of the excess voting shares.

These provisions are designed to ensure compliance by BCT.TELUS with the Canadian Telecommunications Common Carrier Ownership and Control Regulations pursuant to the *Telecommunications Act*.

Stock Option Plans

The obligations of the BC TELECOM Stock Option Plans and the obligations of the TELUS Stock Option Plans with respect to outstanding options under such Plans will be assigned to and assumed by BCT.TELUS as a result of the Arrangement. See "Stock Options". It is anticipated that after the Effective Date, the Board of Directors of BCT.TELUS will implement new stock option plans, subject to applicable shareholder and regulatory approvals, to cover options to be granted after the Effective Date.

Dividend Reinvestment and Share Purchase Plan

It is anticipated, subject to Board of Directors approval and necessary regulatory approvals, that BCT.TELUS will implement a dividend reinvestment and share purchase plan similar to the plans currently in place for BC TELECOM and TELUS. The BCT.TELUS plan will permit eligible registered holders of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to purchase additional BCT.TELUS Common Shares by reinvesting their cash dividends and by making optional cash payments. For participants in the BC TELECOM dividend reinvestment and share purchase plan and TELUS dividend reinvestment and share purchase plan, as of the Effective Date, the BC TELECOM Shares and TELUS Common Shares, as the case may be, held in the participants' accounts will be exchanged for BCT.TELUS Shares in accordance with the terms of the Arrangement. Such participants will continue as members of the new BCT.TELUS plan without further action.

Employee Share Purchase Plans

After the Effective Date, it is anticipated that the Board of Directors of BCT.TELUS will implement a new employee share purchase plan, subject to all necessary approvals. For participants in the BC TELECOM and TELUS Plans, as of the Effective Date, the BC TELECOM Common Shares and TELUS Common Shares, as the case may be, held in the participants' accounts will be exchanged for BCT.TELUS Shares in accordance with the terms of Arrangement. Such participants will continue as members of the new BCT.TELUS plan without further action.

DETAILS OF THE ARRANGEMENT AND RELATED TRANSACTIONS

The Arrangement Agreement

BC TELECOM and TELUS have agreed to the Arrangement and have entered into the Arrangement Agreement effective October 27, 1998. Each Party has agreed to use all reasonable efforts to secure all required approvals. Certain terms of the Arrangement Agreement are summarized below. **The summary below is qualified in its entirety by the text of the Arrangement Agreement (including all schedules attached thereto) which is contained in Appendix B to this Joint Circular.**

In the Arrangement Agreement, each of BC TELECOM and TELUS provided mutual representations and warranties regarding certain customary commercial matters, including corporate, legal and other matters relating to their respective businesses. Each of BC TELECOM and TELUS also agreed that until the Effective Date, it would (and would cause each of its subsidiaries to) carry on business in the ordinary course and use its reasonable best efforts to preserve intact its business and goodwill.

Pursuant to the Arrangement Agreement, until the Effective Date, each Party has agreed, subject to certain exceptions, not to solicit offers relating to the acquisition or disposition of any of its common shares or any sale of all or a significant part of its assets or any reorganization or other similar transaction involving such Party or any of its subsidiaries (subject to limited exceptions relating to fiduciary duties of the Board of Directors of each of BC TELECOM and TELUS).

The obligations of each Party to complete the transactions contemplated in the Arrangement Agreement are subject to the fulfillment or waiver by one or both of BC TELECOM and TELUS, as the case may be, on or before the Effective Date of certain conditions, including the following: (i) receipt of certain regulatory approvals required for the completion of the Arrangement; (ii) approval of the respective Special Resolutions in accordance with the Interim Orders; (iii) receipt of the Final Orders in form and substance satisfactory to the parties; (iv) reaffirmation by the auditors of each Party of opinions relating to the accounting treatment of the Arrangement; (v) the Arrangement Agreement not having been terminated, as described below; (vi) each Party performing each of its obligations and each representation and warranty being true except for such breaches which individually or in the aggregate would not materially adversely affect the other Party or materially impede the completion of the Arrangement; and (vii) there being no change, effect, event, occurrence or change in state of facts which has had, will have, or in the reasonable judgment of either Party has or would reasonably be expected to have, a material adverse effect (as defined in the Arrangement Agreement) on either Party.

Each Party has agreed that it would immediately pay the other Party $130 million plus certain expenses if: (i) the Board of Directors of the applicable Party has withdrawn, qualified or changed any of its recommendations or determinations in respect of the Arrangement in a manner adverse to the other Party; (ii) a *bona fide* Acquisition Proposal (as such term is defined in the Arrangement Agreement), is publicly announced, proposed, offered, or made to the applicable Party or its shareholders, and they accept that proposal or that proposal has not expired or been withdrawn at the time of the respective Party's meeting and the shareholders do not approve the Arrangement; or (iii) any person (or group of persons acting in concert), except GTE in the case of BC TELECOM, acquires more than 10% of the common shares of a Party on or before the Effective Date, and as a result thereof or in connection therewith certain conditions are not satisfied and the Arrangement is as a result not completed and further, that such person (or group of persons acting in concert), within 12 months of the date of termination of the Arrangement Agreement either: (a) acquires, whether by way of an Acquisition Proposal or otherwise, additional shares of the other Party such that such person (or group of persons acting in concert) then holds more than 40% of the then issued and outstanding shares; or (b) completes or agrees with that Party to complete a merger, amalgamation, business combination or sale of material assets involving that Party or any material subsidiaries of that Party. Each of the above is referred to as a Payment Event.

The Arrangement Agreement may be terminated, subject to certain conditions, by a Party in certain circumstances, including: (i) the occurrence of a Payment Event, provided that in the case of a *bona fide* Acquisition Proposal that has not been accepted and that has not expired or been withdrawn at the time of the Meeting, the Arrangement Agreement may not be terminated unless the other Party's shareholders do not approve the Arrangement; (ii) subject to curative provisions, if the conditions precedent in favour of that Party are not satisfied; and (iii) the acceptance by either Party of an Acquisition Proposal.

Compensation and Option Agreements

In connection with the Arrangement Agreement, BC TELECOM and TELUS have entered into reciprocal Compensation and Option Agreements, granting to the other Party the right to acquire, under certain circumstances, up to 19.9% of its outstanding common shares at a price per common share equal to $42.40 for each BC TELECOM Common Share and $32.50 for each TELUS Common Share. The options would become exercisable by the grantees in connection with the termination of the Arrangement Agreement, in circumstances where the $130 million payment is payable by the other Party. In all circumstances, BC TELECOM and TELUS have the ability to elect to pay or receive cash in lieu of issuing shares. The cash payment on profit realized under either option is limited to a maximum of $60 million and is calculated by multiplying the number of common shares subject to the option by the "spread" (the excess over the exercise price of the higher of: (i) the weighted average of the shares trading on the TSE for the 10 trading days prior to the decision by the grantor or grantee of the option to monetize the option; and (ii) the highest price offered in a competing proposal).

The total proceeds which a Party may receive from a Compensation and Option Agreement and a monetary payment are limited to $190 million plus certain expenses.

Arrangement Steps

The Arrangement is to be effected by a number of steps. **A complete description of the steps required to effect the Arrangement is set forth in the Plan of Arrangement annexed as Schedule A to the Arrangement Agreement.** See Appendix B to this Joint Circular which contains the Arrangement Agreement.

The following are the principal steps required to effect the Arrangement:

1. (a) TELUS Common Shareholders (other than TELUS Taxable Exchange Shareholders or TELUS Dissenting Shareholders (as defined in the Plan of Arrangement)) shall dispose of: (i) 75% of their TELUS Common Shares to BCT.TELUS in exchange for BCT.TELUS Common Shares on the basis of the TELUS Exchange Ratio; and (ii) 25% of their TELUS Common Shares to BCT.TELUS in exchange for BCT.TELUS Non-Voting Shares on the basis of the TELUS Exchange Ratio; and

   (b) TELUS Taxable Exchange Shareholders shall dispose of: (i) 75% of their TELUS Common Shares to AcquisitionCo. in exchange for BCT.TELUS Common Shares on the basis of the TELUS Exchange Ratio; and (ii) 25% of their TELUS Common Shares to AcquisitionCo. in exchange for BCT.TELUS Non-Voting Shares on the basis of the TELUS Exchange Ratio;

2. (a) BC TELECOM Common Shareholders (other than BC TELECOM Taxable Exchange Shareholders or BC TELECOM Dissenting Shareholders (as defined in the Plan of Arrangement)) shall dispose of: (i) 75% of their BC TELECOM Common Shares to BCT.TELUS in exchange for BCT.TELUS Common Shares on the basis of the BC TELECOM Exchange Ratio; and (ii) 25% of their BC TELECOM Common Shares to BCT.TELUS in exchange for BCT.TELUS Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio; and

   (b) BC TELECOM Taxable Exchange Shareholders shall dispose of: (i) 75% of their BC TELECOM Common Shares to AcquisitionCo. in exchange for BCT.TELUS Common Shares on the basis of the BC TELECOM Exchange Ratio; and (ii) 25% of their BC TELECOM Common Shares to AcquisitionCo. in exchange for BCT.TELUS Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio;

3. In consideration for the issuance by BCT.TELUS of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to TELUS Taxable Exchange Shareholders and BC TELECOM Taxable Exchange Shareholders, AcquisitionCo. will issue 9,999,999 AcquisitionCo. common shares to BCT.TELUS;

4. Each of the outstanding options to acquire TELUS Common Shares will be converted into an option to purchase: (i) the number of BCT.TELUS Common Shares determined by multiplying the number of TELUS Common Shares subject to such option by 75% of 0.7773; and (ii) the number of BCT.TELUS Non-Voting Shares determined by multiplying the number of TELUS Common Shares subject to such option by 25% of 0.7773, with the exercise price for each BCT.TELUS share equal to the amount determined by dividing the exercise price per TELUS Common Share by 0.7773;

5. Each of the outstanding options to acquire BC TELECOM Common Shares will be converted into an option to purchase: (i) the number of BCT.TELUS Common Shares determined by multiplying the number of BC TELECOM Common Shares subject to such option by 75%; and (ii) the number of BCT.TELUS Non-Voting Shares determined by multiplying the number of BC TELECOM Common Shares subject to such option by 25%, with the exercise price for each BCT.TELUS share equal to the exercise price per BC TELECOM Common Share;

6. The one BCT.TELUS Common Share owned by BC TELECOM and the two BCT.TELUS Common Shares then owned by TELUS shall be cancelled;

7. AcquisitionCo. shall be wound up and dissolved in accordance with subsection 88(1) of the Tax Act and the provisions of the CBCA and, in connection with and as a consequence of the wind up, all of the assets, rights and properties of AcquisitionCo., including the BC TELECOM Common Shares and the TELUS Common Shares, will be distributed, transferred and conveyed to BCT.TELUS so that BCT.TELUS shall be the registered and beneficial owner of all BC TELECOM Common Shares and TELUS Common Shares and all the liabilities and obligations of AcquisitionCo. will be assumed by BCT.TELUS; and

8. BC TELECOM shall be wound up and dissolved in accordance with subsection 88(1) of the Tax Act and the provisions of the CBCA and, in connection with and as a consequence of the wind up, all of the assets, rights and properties of BC TELECOM will be assigned and transferred to BCT.TELUS and all the liabilities and obligations of BC TELECOM will be assumed by BCT.TELUS.

Procedures for the exchange of Shares are set out in "Procedures for Exchange of Share Certificates".

Comparisons between the BCCA and each of the CBCA and the ABCA

BC TELECOM is incorporated under and governed by the CBCA and TELUS is incorporated under and governed by the ABCA. BCT.TELUS is incorporated under and is governed by the BCCA.

The following is a summary of some of the important differences between the BCCA and each of the CBCA and the ABCA. This summary is not definitive or exhaustive. Shareholders should refer to the full text of the relevant provisions of the BCCA, CBCA and ABCA or should consult their legal advisors.

Special Resolutions

Under the BCCA, a special resolution means a resolution: (i) passed by a majority of not less than 75% of the votes cast by those shareholders of a company who, being entitled to do so, vote in person or by proxy at a general meeting of the company; or (ii) consented to in writing by every shareholder of a company who would have been entitled to vote in person or by proxy at a general meeting of the company.

Under the CBCA and ABCA, a special resolution means a resolution passed by a majority of at least 66⅔% of the votes cast by the shareholders who voted in respect of that resolution or signed by all the shareholders entitled to vote on that resolution.

Under the BCCA, a special resolution is required for a company to complete certain transactions which only require an ordinary resolution (a majority of votes cast by shareholders) under the CBCA and ABCA, including: (i) to give financial assistance in certain circumstances; and (ii) with court approval, to reduce its capital.

Plans of Arrangement and Amalgamations

The BCCA requires a special resolution by shareholders to approve an arrangement. In addition, for certain arrangements the BCCA requires approval by a majority of votes cast by shareholders of reporting (public) companies excluding shareholders: (i) who are affiliates of the company; (ii) that will, as a result of the arrangement, be entitled to consideration for each share greater than that available to other shareholders of the same class; and (iii) who effectively control (alone or in combination with others) the company and who entered into an understanding to support the arrangement prior to notice of the shareholders meeting to approve the arrangement. The CBCA and ABCA only require such resolution by shareholders as may be directed by the court to approve an arrangement.

The BCCA requires court approval in respect of the adoption of an amalgamation agreement within six days to two months of the adoption of the agreement. There are three methods to effect amalgamations under the CBCA and ABCA. One method involves court approval by way of an arrangement. The second method does not require court approval, but provides a process to be followed, including shareholder approval, required terms of the amalgamation agreement, and class votes. The third method under the CBCA and ABCA provides for vertical and horizontal short-form amalgamations which does not require court or shareholder approval.

Voting Rights

Under the BCCA, unless the articles otherwise provide, every shareholder has one vote in respect of each share held by the shareholder. The Articles of BCT.TELUS do not provide the right to vote to holders of the BCT.TELUS Non-Voting Shares unless otherwise required by law. However, shareholders holding issued shares not otherwise entitled to vote are entitled to vote on any proposal which would prejudice or interfere with any right or special right attached to such shares and on amalgamations.

Under the CBCA and the ABCA, unless the articles otherwise provide, each share of a corporation entitles the holder of it to one vote at a meeting of shareholders. Whether or not a share otherwise carries the right to vote, each share carries the right to vote not only on proposals to amend the articles in a manner which affects that class and on amalgamations but also on: (i) a sale, lease or exchange of all or substantially all the property of a corporation other than in the ordinary course of business; and (ii) continuance of a corporation into another jurisdiction.

Dissent Rights

Under the BCCA, dissent rights procedures must be strictly followed and the dissent rights expire at certain times if procedures are not followed.

A dissenting shareholder must exercise that shareholder's right of dissent by delivering a notice in prescribed form with the share certificates representing that shareholder's shares within 14 days after a company or liquidator, as the case may be, gives notice of intention to act on the authority of a special resolution which gives rise to the right to dissent. Upon exercising dissent rights, a dissenting shareholder is bound to sell that shareholder's shares to the company. A dissenting shareholder may not withdraw the requirement to purchase the shares unless the company consents. The dissenting shareholder's rights as a shareholder cease upon exercising that shareholder's dissent rights.

A shareholder's dissent rights expire, if not acted upon, two days before the meeting at which a special resolution is to be passed or approval is to be sought in respect of any of the following matters: (i) continuation of a company into another jurisdiction; (ii) giving financial assistance in connection with an acquisition of shares where after such acquisition not less than 90% of the issued shares of each class will be owned; or (iii) the sale, lease or other disposition of the whole or substantially the whole of a company's undertaking.

A shareholder's dissent rights expire, if not acted upon, not later than seven days after the passing of the special resolution in respect of any of the following matters: (i) alteration of the memorandum by altering any restriction on the business carried on by the company or the powers of the company; (ii) amalgamation of the company; (iii) conversion of a specially limited company into a company; or (iv) any transfer, sale or arrangement which involves the payment or liability for payment of money by shareholders of the company in connection with the liquidation or winding-up of the company.

Dissent rights procedures under the CBCA and ABCA must also be strictly followed but the manner of exercise and tendering of shares differs from the BCCA and are described under the headings "BC TELECOM Shareholders Rights of Dissent" and "TELUS Shareholders Rights of Dissent" and the relevant sections of the CBCA and ABCA have been reproduced as Appendices D and E, respectively.

Shareholder Proposals

Under the BCCA, shareholders do not have the right to submit proposals at annual general meetings.

Under the CBCA and ABCA, shareholders entitled to vote at an annual meeting of shareholders may submit to the corporation notice of any matter that they propose to raise at the meeting and discuss at the meeting any matter in respect of which they would have been entitled to submit a proposal.

Location of Meetings of Shareholders

Under the BCCA, meetings of shareholders must be held in British Columbia unless otherwise approved by the Registrar of Companies (British Columbia).

Under the CBCA, meetings of shareholders shall be held at a place within Canada as provided in the bylaws or, in the absence of such provision, at a place within Canada as determined by the directors. Under the ABCA, meetings of shareholders may be held anywhere in Alberta as provided in the bylaws or, in the absence of such provision, at any place within Alberta as determined by the directors. If the articles so provide, meetings of shareholders may be held outside of Alberta at one or more of the places specified in the articles.

Election and Removal of Directors

Under the BCCA, the shareholders may remove directors by special resolution (see the relevant definition of special resolution above) and shareholders holding 10% or more of the voting shares may nominate directors and require the nominees to be included in the company's proxy circular for the election of directors.

Under the CBCA and ABCA, shareholders may remove directors by ordinary resolution at a special meeting.

Standing to Bring Derivative Actions/Oppression Actions

Under the BCCA, the ability to obtain standing to bring an oppression action or derivative action is potentially narrower than under the CBCA and ABCA as the class of complainants does not expressly include former security holders, directors, officers, former officers of the company and their affiliates but rather leaves it to the discretion of the court to determine if a person is a "proper person" to bring an application.

Voting Agreement

Pursuant to the Voting Agreement, GTE has agreed to cause Anglo-Canadian to vote its BC TELECOM Common Shares in the following manner: (i) in favour of the Arrangement and other transactions contemplated in the Arrangement Agreement; (ii) against any action or agreement which would result in a breach of any covenant, representation or any other material obligation of BC TELECOM, to its knowledge after due inquiry under the Arrangement Agreement; and (iii) against certain actions which would interfere with or materially adversely affect the Arrangement or transactions contemplated by the Arrangement Agreement or the Voting Agreement (such actions include any change in a majority of the persons who constitute the Board of Directors of BC TELECOM, any change in the capitalization of BC TELECOM, or any other material change in BC TELECOM's corporate structure). GTE and Anglo-Canadian have each agreed not to enter into or negotiate any agreement or understanding with any person the effect of which would be inconsistent with the above provisions. GTE and Anglo-Canadian have agreed not to solicit or encourage the initiation of any proposals for the acquisition of Anglo-Canadian's BC TELECOM Common Shares or concerning a transaction involving BC TELECOM or any of BC TELECOM's material subsidiaries. In the event that GTE or Anglo-Canadian receives any such proposal, GTE and Anglo-Canadian shall immediately notify BC TELECOM and TELUS of all the particulars of the proposal.

The obligations of GTE and Anglo-Canadian pursuant to the Voting Agreement are subject to the following conditions:

(a) There is no amendment to the Arrangement Agreement without the written prior consent of GTE, such consent not to be unreasonably withheld;

(b) There is no change from October 27, 1998 of the anticipated tax effects of the Arrangement to GTE, being that such transaction will not cause GTE or Anglo-Canadian to recognize a material amount of taxable income or otherwise to be subject to tax in a material amount in respect of its shareholdings in

BC TELECOM or BCT.TELUS, provided that GTE or Anglo-Canadian shall have used commercially reasonable efforts to avoid making the transaction taxable;

(c) There is no change in any law or accounting rule or interpretation thereof which would result in the Arrangement, if completed, causing the proposed merger between GTE and Bell Atlantic not being able to be treated as a pooling of interests under United States GAAP;

(d) GTE is satisfied, acting reasonably, that: (i) any waiver by BC TELECOM of any provision of the Arrangement Agreement or Plan of Arrangement for its benefit has not had, and will not have, a material adverse effect on GTE, Bell Atlantic, BC TELECOM or BCT.TELUS; (ii) all conditions of the Arrangement Agreement in favour of BC TELECOM have been or are likely to be, satisfied; and (iii) the terms of any consent or other action of or by a governmental entity required to be obtained by BC TELECOM or TELUS in connection with the Arrangement would not reasonably be expected to have a material adverse effect on GTE or Anglo-Canadian; and

(e) Following the Arrangement, those persons who held BC TELECOM Common Shares immediately prior to the commencement of the Arrangement will not hold less than 50% of the BCT.TELUS Common Shares and the BCT.TELUS Non-Voting Shares issued and outstanding whether or not all options and instruments to acquire the BCT.TELUS Common Shares and the BCT.TELUS Non-Voting Shares are assumed to have been exercised immediately after the Effective Date and, on the assumption that no TELUS Shareholders exercise the right of dissent.

BC TELECOM and TELUS have agreed not to seek a Final Order or file Articles of Arrangement unless GTE, acting reasonably, is satisfied that each of the above conditions has been satisfied.

GTE and Anglo-Canadian have also agreed that until one year following the termination of the Arrangement Agreement they will not: (i) in any manner acquire, agree to acquire or make a proposal or offer to acquire any voting securities in TELUS or its affiliates; (ii) propose or offer to enter into any merger or business combination involving TELUS or to purchase a material portion of the assets of TELUS and its affiliates; (iii) solicit or participate in or join with any person in the solicitation of any proxy to vote or seek to influence any person with respect to the voting of any voting securities of TELUS or its affiliates; (iv) otherwise act alone or in concert with others to seek to control or to influence the management, Board of Directors or policies of TELUS or its affiliates; (v) make any public or private disclosure of any intention or arrangement announcing or proposing to do any of the foregoing; or (vi) advise or encourage any of the foregoing or work in concert with any other person in respect of the foregoing.

The Voting Agreement shall terminate upon the earliest of the Effective Date, the termination of the Arrangement Agreement, or November 30, 1999.

Pre-Arrangement Transaction

Prior to completion of the Arrangement, Anglo-Canadian will, through a series of steps involving BC TELECOM, increase the cost base of Anglo-Canadian's BC TELECOM Common Shares by the amount of its "safe income" attributable to those shares for purposes of the Tax Act. This transaction will be subject to obtaining an advance income tax ruling. The costs of the transaction, including obtaining the income tax ruling, will be borne by Anglo-Canadian and appropriate indemnities will be given to BC TELECOM in respect of the transaction.

If any BC TELECOM Common Shareholder that is a public company is of the opinion that it could benefit from accessing the safe income attributable to its shares in a similar fashion, that BC TELECOM Common Shareholder should contact the Corporate Secretary of BC TELECOM on or before January 15, 1999. BC TELECOM will enter into similar arrangements with that BC TELECOM Common Shareholder if appropriate agreements and indemnities between BC TELECOM and that BC TELECOM Common Shareholder can be effected on or before January 20, 1999.

Relationship between GTE and BCT.TELUS After the Arrangement

Long-Term Relationship Agreement

After consummation of the Arrangement, GTE, through Anglo-Canadian, will own 47,357,957 BCT.TELUS Common Shares and 15,785,985 BCT.TELUS Non-Voting Shares (the "GTE Shares"), or approximately 26.7% of the outstanding BCT.TELUS Shares (26.4% on a fully diluted basis). Due to this ownership position, GTE has agreed to execute, on or prior to the completion of the Arrangement, the Long-Term Relationship Agreement with BCT.TELUS, which Agreement is attached and contained in Appendix J — Long-Term Relationship Agreement. **This summary of the Long-Term Relationship Agreement is qualified in its entirety by reference to the full text of such agreement.** The Long-Term Relationship Agreement generally: (a) limits GTE's right to (i) acquire additional BCT.TELUS Shares, (ii) transfer or sell BCT.TELUS Shares, and (iii) solicit mergers and other business combinations involving BCT.TELUS; (b) provides for the appointment or nomination of GTE designees as directors of BCT.TELUS proportionate to its then share ownership; and (c) provides for anti-dilution rights for GTE.

The following sections describe the provisions of the Long-Term Relationship Agreement in more detail:

GTE's Right to Acquire Additional Shares. Without the prior approval of a majority of those directors who are neither GTE designees nor members of BCT.TELUS management (the "Independent Directors"), GTE and its controlled affiliates are prohibited from acquiring any BCT.TELUS Shares if, as a result, it would beneficially own, or exercise direction or control over, directly or indirectly, BCT.TELUS Shares representing: (a) more than the percentage of the voting rights attaching to all BCT.TELUS Shares having the right to vote for the election of directors generally that GTE and its affiliates hold immediately after the Effective Time plus 7.5%; or (b) more than the percentage of BCT.TELUS Shares that GTE and its affiliates hold immediately after the Effective Time plus 7.5%.

Restrictions on Transfer of BCT.TELUS Shares. Except in certain circumstances, GTE shall not transfer or otherwise dispose of any BCT.TELUS Shares, without the prior approval of the majority of the Independent Directors, if thereafter GTE and its controlled affiliates would beneficially own, or exercise control or direction over, directly or indirectly, BCT.TELUS Shares representing less than 19.9% of the outstanding voting or equity BCT.TELUS Shares. Where GTE is allowed to dispose of BCT.TELUS Shares, such disposition is to be by way of a secondary prospectus offering or other means of sale which results in a wide distribution of BCT.TELUS Shares. GTE and its affiliates shall be permitted to sell or otherwise dispose of BCT.TELUS Shares: (a) pursuant to a take-over bid approved by the BCT.TELUS board or with respect to which the board or a majority of the Independent Directors publicly announce their intention to remain neutral; (b) pursuant to an offer or pursuant to a business combination made or proposed by a third party and shareholders of BCT.TELUS holding in aggregate more than 50% of the aggregate of the BCT.TELUS Shares then outstanding have been deposited and not withdrawn, and in the case of a business combination, 50% of the votes are voted in favour of such transaction; (c) to one or more wholly owned subsidiaries of GTE or other approved transferees and subject to each such subsidiary or transferee agreeing in writing with BCT.TELUS to be bound by the terms of the Long-Term Relationship Agreement and GTE or Anglo-Canadian agreeing not to sell or otherwise dispose of any of its direct or indirect equity interest in any such subsidiary except to another wholly owned subsidiary subject to the same restrictions; or (d) by way of the grant of a security interest to a *bona fide* lender that agrees in writing with BCT.TELUS to be bound by the Long-Term Relationship Agreement.

Restrictions on Business Combinations. While GTE and Anglo-Canadian will be free to vote their BCT.TELUS Shares as they see fit, each of GTE and Anglo-Canadian, in the Long-Term Relationship Agreement, will agree that it will not, nor will it authorize or permit any of its directors, officers, employees, affiliates or agents to, without the prior approval of a majority of the Independent Directors: (a) initiate, solicit or invite any discussions or negotiations, or enter into any agreement, provide any confidential information concerning BCT.TELUS or otherwise act alone or in concert with any person in order to propose or effect any business combination, sale of material assets or material sale of treasury shares or rights or interests in such assets or treasury shares involving BCT.TELUS; (b) except in respect of their own nominees, solicit proxies, or engage in, participate in, support, induce or provide any encouragement or assistance to any proxy contest with the management of BCT.TELUS or its board, or otherwise oppose or solicit or encourage opposition to its board in order to propose, consider or effect any of the acts prohibited pursuant to (a) above; or (c) take any

action or make any announcement to initiate, encourage or otherwise assist any other person to do or otherwise act in concert with any person in order to propose or effect any of the acts prohibited by the foregoing.

Procedures for Sale of BCT.TELUS Shares. If GTE or its affiliates hold more than the maximum ownership of BCT.TELUS Shares, GTE must, on receipt of written notice from a majority of the Independent Directors, sell, transfer or dispose of such number of BCT.TELUS Shares so that, following such sale, transfer or disposition, GTE and its affiliates are in compliance with the agreement. GTE and its affiliates shall have a period of 60 days from the receipt of written notice to effect such sale, transfer or other disposition and BCT.TELUS shall prepare a prospectus to effect the sale and enter into and comply with any underwriting agreement reasonably requested by GTE.

Anti-Dilution. If BCT.TELUS determines to issue any shares (or any securities convertible into or representing the right or obligation to acquire shares), other than by way of a grant of options to directors, officers or employees of BCT.TELUS or its subsidiaries, BCT.TELUS must use its best efforts to provide GTE and its affiliates with the right to acquire, from treasury, such number thereof as will enable GTE and its affiliates to hold the same percentage of the securities of the class being issued that they held of the BCT.TELUS Shares prior to the issuance of such securities, on equivalent terms. Certain anti-dilution rights will also apply in respect of subsidiaries of BCT.TELUS. The rights of anti-dilution shall immediately terminate if GTE or its affiliates beneficially own, or exercise direction or control over, less than 50% of the percentage of outstanding BCT.TELUS Shares that GTE and its affiliates held immediately following the Effective Time.

GTE's Nominees to BCT.TELUS Board of Directors. In respect of each meeting of shareholders subsequent to the Effective Date at which BCT.TELUS directors are to be elected, GTE or Anglo-Canadian shall be entitled to designate a number of GTE designees for nomination. The proportion of GTE designees to the total number of BCT.TELUS directors to be elected will be equivalent (rounded up or down as appropriate) to the number of voting rights attached to all of the BCT.TELUS Shares beneficially owned, directly or indirectly, by GTE or Anglo-Canadian as a proportion of the total number of voting rights attached to all of the BCT.TELUS Shares outstanding. The GTE designees will be considered management nominees to the Board of Directors and votes in favour will be solicited by management of BCT.TELUS. Assuming 16 directors and current ownership levels, GTE will be able to nominate four directors. GTE has designated three of the 16 proposed directors (Messrs. Masin, Salloum and Canfield). In addition, each committee of the BCT.TELUS Board of Directors shall include one GTE designee, except such committees formed after the Effective Date, which the Board of Directors determines should be comprised of directors who are independent of GTE or Anglo-Canadian or their respective affiliates.

Termination. The Long-Term Relationship Agreement will terminate on the date that is the tenth anniversary of the Effective Date.

Intellectual Property Agreement

BC TELECOM and GTE have entered into the binding Heads of Agreement. BCT.TELUS is to become a party to the intellectual property arrangements with GTE in place of BC TELECOM and, accordingly, for the purposes hereof it is assumed that BCT.TELUS is a party to the Heads of Agreement as of the date hereof.

The following sections describe key provisions from the Heads of Agreement which will be reflected in the Intellectual Property Agreement:

Software and Other Technology. Subject to existing third party rights, BCT.TELUS has the exclusive right to use GTE's software and other technology in connection with the provision of telecommunications services in Canada outside the current operating territory (the "Reserved Territory") of Le Groupe QuébecTel Inc. ("QuébecTel"). BCT.TELUS and QuébecTel have mutually non-exclusive rights to use such software and other technology to provide telecommunications services in the Reserved Territory. Technology consists of all present and future patents, copyrights, trade secrets and know-how in systems, processes, hardware and software owned by GTE and all third party patents, copyrights, trade secrets and know-how licenced or made available to GTE which GTE is authorized pursuant to its licences to sublicence or otherwise make available to BCT.TELUS, used in providing telecommunications services. Telecommunications services include voice, data, internet, wireless (mobile and fixed), broadcasting, video and cable services. Telecommunications services do not include the

provision of content for broadcasting, video, cable or internet services, or the sale, publication or provision of directories.

Functional and Consulting Services. GTE has agreed to provide, upon request, certain functional and consulting services to BCT.TELUS. Functional services consist of services which provide access to certain GTE databases and systems and other operational support services to the extent necessary for providing telecommunications services in Canada. Consulting services include technical, marketing, training, support and similar assistance to enable BCT.TELUS to provide telecommunications services in Canada and to adapt the GTE technology for use in Canada.

Brand. BCT.TELUS has the exclusive right to use GTE's trademarks and service marks in connection with the provision of telecommunications services in Canada. This right is subject to existing third party rights and to GTE's right to grant an exclusive licence to use such trademarks and service marks to QuébecTel in the Reserved Territory in the event BCT.TELUS fails to reach an agreement with QuébecTel respecting the provision of telecommunications services in the Reserved Territory. BCT.TELUS will be obligated to use such trademarks where it reasonably concludes that such use will enhance shareholder value.

Co-Marketing. BCT.TELUS and GTE have agreed, subject to existing obligations, to use reasonable efforts to provide services and products that are seamless with each other. Each party will use reasonable efforts to market to its customers the telecommunications services of the other party in that party's territory.

Term. The initial term is for a period of ten years. There is an automatic renewal for five years at the end of each term unless written notice to renegotiate is exchanged between the parties two years prior to the end of the term. Upon either the expiration or termination of the agreement for any reason, BCT.TELUS will have a licence to use the then current technology on a non-exclusive basis, which will allow BCT.TELUS to properly manage the transition to new technology.

Payments. During the initial term, BCT.TELUS shall make annual payments to GTE of U.S. $45 million (Cdn. $67.7 million) in each of the first two years, U.S. $50 million (Cdn. $75.2 million) in each of years three to five and, in each of years six to ten, U.S. $35 million (Cdn. $52.6 million) plus two percent of BCT.TELUS incremental revenue and certain revenues of third party sub-licensees for each of such years attributable to telecommunications services, with the total annual payment not to exceed U.S. $70 million (Cdn. $105 million). If the initial term is renewed, then the annual payment after year ten shall be fixed at two percent of such incremental revenue. Functional services and consulting services are to be paid by BCT.TELUS on an agreed upon usage basis.

Non-Compete Provisions. GTE has agreed not to compete with BCT.TELUS in the provision of telecommunications services in Canada except in certain limited circumstances. BCT.TELUS has agreed not to compete with GTE in the provision of telecommunications services in the United States and not to compete with GTE outside of Canada and the United States using GTE's intellectual property, except in certain limited circumstances. Each party has agreed to make reasonable efforts to purchase telecommunications services for itself and its customers in the other party's territory from the other party to the fullest extent practicable. Unless agreed to otherwise between BCT.TELUS and QuébecTel, for the first ten years, BCT.TELUS will not compete with QuébecTel in the provision of telecommunications services in the Reserved Territory using GTE's intellectual property, including trademarks and service marks.

GTE-Bell Atlantic Merger. GTE has agreed to merge with Bell Atlantic and is pursuing certain U.S. regulatory and shareholder approvals. GTE has agreed to use its best efforts to cause Bell Atlantic to grant to BCT.TELUS licences to the Bell Atlantic trademarks and technology on the completion of the GTE-Bell Atlantic merger.

Renegotiation. In the event of a significant change of circumstance, including, in the case of BCT.TELUS, the failure of GTE to complete its merger with Bell Atlantic or, in the case of GTE, a material acquisition by GTE of an owner or provider of technology or other unforeseen circumstances, and such change causes one or the other party to be under a substantial disadvantage or the performance of the agreement not to be economically viable for one or the other party, then at any time after the end of the fifth year of the initial term either party may on a one-time basis only request the other party to renegotiate the material terms and conditions of the agreement for the remainder of the initial term. If the parties are unable to agree on the appropriate amendments to the agreement, the parties shall refer their dispute to binding arbitration.

Stentor Alliance

Each of the current Annual Information Forms for BC TELECOM and TELUS attached hereto in Appendix G and H, respectively, contain disclosure on the Stentor Alliance. The following is a discussion of new developments on the reconfiguration of the Stentor Alliance since the filing of the Annual Information Forms.

On September 18, 1998, Stentor announced a restructuring of the alliance. Commencing, at the earliest, January 1, 1999, certain functions which have been carried out by Stentor Resource Centre Inc. and the Signature Service Centre, which provides support to large national customers, are to be repatriated by the individual member companies. The alliance will concentrate cooperative efforts in an enhanced Stentor Canadian Network Management to ensure continuity of service for customers. Although negotiations concerning the repatriation of specific functions of Stentor Resource Centre Inc. have not yet been completed, it is expected that the functions will be repatriated by the member companies. These functions include long distance, data, wholesale, international retail, international sales support, international carrier relations and wholesale, regulatory, technology, market research, corporate development and local number portability.

It is anticipated that the Stentor Alliance will continue to abide by the existing agreements until they are amended or terminated in accordance with their terms. Following the transition from the existing agreements, competition among the member companies in their core businesses may develop. Bell Canada announced plans to launch a new national broadband/internet protocol based communication company in early 1999. The fibre optic systems to be acquired from Ledcor and its affiliates, as well as the benefits of the Intellectual Property Agreement, will give BCT.TELUS the capabilities to launch a new broadband/internet protocol based business and to connect to national networks in the United States, including that of GTE. See "BCT.TELUS Communications Inc. — Fibre Acquisition".

In December 1998, the Stentor Alliance agreed to wind down the activities of Stentor Telecom Policy Inc. in accordance with the terms of the relevant agreements.

KEY APPROVALS

Court Approvals

The Arrangement involving the merger of BC TELECOM and TELUS under the CBCA and the ABCA, respectively, requires approval by both the Courts and the shareholders as specified in the Interim Orders. Prior to the mailing of this Joint Circular, BC TELECOM and TELUS obtained the Interim Orders providing for the calling and holding of the BC TELECOM Meeting and the TELUS Meeting and other procedural matters. Copies of the Interim Orders are attached as Appendix C. The Notices of Petition of BC TELECOM and TELUS for the Final Orders appear in Appendix K to this Joint Circular. **Shareholders should refer to the Appendix for more detailed information in respect of the hearings for the Final Orders.**

Subject to the approval of the Arrangement by the BC TELECOM Shareholders and the TELUS Shareholders at the respective Meetings, the hearings in respect of the Final Orders are scheduled to take place on January 22, 1999 at 9:45 a.m. (Pacific Standard Time) at the Courthouse, 800 Smithe Street, Vancouver, British Columbia and on January 21, 1999 at 1:30 p.m. (Mountain Standard Time) in the Alberta Court at the Court House, 611 - 4th Street S.W., Calgary, Alberta. All BC TELECOM Shareholders, TELUS Shareholders and other interested parties who wish to participate in or be represented or to present evidence or arguments at the hearing in respect of the Final Orders must file and serve a notice of appearance as set out in the Notice of Petition for the Final Orders and satisfy any other requirements. At the hearings of the application in respect of the Final Orders, the Courts will consider, among other things, the fairness of the Arrangement. The Courts may approve the Arrangement as proposed or as amended in any manner the Courts may direct, subject to compliance with such terms and conditions, if any, as the Courts deem fit. The Final Orders will constitute the basis for an exemption from certain requirements under the *Securities Act of 1933*, as amended, of the United States with respect to the securities of BCT.TELUS issued pursuant to the Arrangement and the Courts will be so advised.

Assuming the Final Orders are granted and the other conditions to the Arrangement Agreement are satisfied or waived, it is anticipated that the Articles of Arrangement will become effective under the CBCA and the ABCA, simultaneously on or about January 31, 1999 to give effect to the Arrangement.

Shareholder Approvals

Pursuant to the Interim Orders, the Courts have directed that the BC TELECOM Shareholders be asked to approve the BC TELECOM Special Resolution at the BC TELECOM Meeting and the TELUS Shareholders be asked to approve the TELUS Special Resolution at the TELUS Meeting.

Each Special Resolution must be approved by at least 66⅔% of the votes cast at the respective Meetings. In addition, since Anglo-Canadian owns greater than 50% of the outstanding BC TELECOM Common Shares and the Arrangement contemplates the issue of BCT.TELUS Non-Voting Shares, the BC TELECOM Special Resolution must be approved by a majority of the votes cast at the BC TELECOM Meeting other than the votes cast by Anglo-Canadian. At the BC TELECOM Meeting, each BC TELECOM Common Shareholder and BC TELECOM Optionholder will be entitled to vote on the basis of one vote per share held or which may be acquired under a BC TELECOM Option Plan, as the case may be, for the purpose of voting upon the BC TELECOM Special Resolution. At the TELUS Meeting, each TELUS Common Shareholder and each TELUS Optionholder will be entitled to vote on the basis of one vote per share held or which may be acquired under a TELUS Option Plan, as the case may be, for the purpose of voting upon the TELUS Special Resolution.

Regulatory Approvals

In addition to the approval of BC TELECOM Shareholders, TELUS Shareholders and the Courts, it is a condition precedent to the implementation of the Arrangement that certain regulatory approvals be obtained. Accordingly, the following approvals have been sought:

Competition Act

The Arrangement is a "notifiable transaction" for the purposes of Part IX of the *Competition Act*. On October 30, 1998, TELUS completed its submission and on November 4, 1998, BC TELECOM completed its submission of the required short-form pre-merger notification filing to the Competition Director in respect of the Arrangement. BC TELECOM and TELUS have asked the Competition Director for a "no-action" letter in respect of the Arrangement. On November 10, 1998, BC TELECOM and TELUS jointly filed a further detailed competition analysis of the Arrangement with the Competition Director.

As of the date of this Joint Circular, the applicable waiting period under Part IX of the *Competition Act* had expired but the Competition Director had not issued a "no-action" letter advising that the Competition Director will not oppose completion of the Arrangement and will not make an application under the *Competition Act* in respect of the Arrangement. If issued, such letter would not bar the Competition Director from challenging the Arrangement at any time up to three years after the Arrangement has been completed.

CRTC

There is no requirement for approval by the CRTC in order for the Arrangement to be completed. While the CRTC has the discretion to undertake a review following closing of the Arrangement for compliance with the Canadian ownership and control requirements contained in the *Telecommunications Act*, the Arrangement has been structured to facilitate compliance with these statutory control requirements so that the regulated operating subsidiaries will maintain their eligibility to operate as Canadian carriers.

Eligibility to operate as Canadian carriers is stipulated in the Canadian ownership and control requirements contained in the *Telecommunications Act* which was proclaimed into force on October 25, 1993. The *Telecommunications Act* implements the policy of Canadian ownership and control of Canadian carriers by providing that 80% of the voting shares of a Canadian carrier subject to this legislation must be owned and controlled by Canadians and that not less than 80% of the members of a Board of Directors must be Canadians.

In October 1994, the Canadian Telecommunications Common Carrier Ownership and Control Regulations (the "Regulations") were promulgated under the *Telecommunications Act*. The Regulations stipulate that: (i) each corporate parent of a Canadian carrier (a carrier holding corporation) must own at least 66⅔% of the issued and outstanding shares of the carrier; (ii) the voting shares of the corporate parent must be at least 66⅔% owned by Canadians and not otherwise controlled by non-Canadians; and (iii) each carrier holding corporation must monitor and control the level of foreign ownership in order to maintain its status as a qualified carrier

holding corporation. The Regulations give carrier holding corporations the power to elicit information from their voting shareholders as to their identity and whether they are Canadian. In addition, under the Regulations, carrier holding corporations have the power to refuse to register a transfer of common shares to a non-Canadian, to require a non-Canadian to sell voting shares and suspend the voting rights attached to such shares, if that persons' holdings would jeopardize the corporation's status as a qualified corporation. These powers also permit the carrier holding corporation to sell any non-Canadian voting shares on that persons' behalf.

BC TELECOM and TELUS each monitor the level of non-Canadian ownership of their shares and annually inform the CRTC with respect thereto. Following completion of the Arrangement, BCT.TELUS will take the steps prescribed by the Regulations and its Articles, if necessary, to satisfy the requirement that the voting shares will be at least 66⅔% owned by Canadians. BCT.TELUS will be implementing a reservation system which will require declarations to be given and reservation numbers obtained on transfers of BCT.TELUS Common Shares to ensure non-Canadians do not acquire voting shares in excess of the percentage permitted by the Regulations. This system will be similar to that presently used by BC TELECOM.

The *Telecommunications Act* also provides that certain carriers such as BC TEL that did not meet these requirements on proclamation, but had operated legally in Canada for many years, would be grandfathered. BC TEL, as well as any other members of the BC TELECOM group that operate as Canadian carriers, such as BC TEL Mobility Cellular Inc., have been able to maintain their grandfathered status under the *Telecommunications Act*, provided they meet certain prescribed criteria regarding their operating territory and their ownership and control. With respect to operating territory, they have been limited to operating within the Province of British Columbia or within such greater territory as the federal minister responsible for telecommunications may specify. Following the Arrangement, BC TEL and BC TEL Mobility Cellular Inc. will no longer be subject to the grandfathering provisions and will no longer be limited to operating within the Province of British Columbia. All of the subsidiaries of BCT.TELUS which operate as Canadian carriers will then be eligible to operate as Canadian carriers under the *Telecommunications Act* throughout Canada, subject to geographic restrictions contained in wireless licences.

The *Telecommunications Act* was recently amended to provide for a licencing regime for providers of basic international services. The licencing regime will come into effect on January 1, 1999. It will be necessary for the operating subsidiaries of BCT.TELUS to obtain licences if they resell basic international telecommunications services or operate telecommunications facilities, whether leased or owned, to transport international telecommunications services. In a decision issued on October 1, 1998, the CRTC set forth the information which will be required to obtain such licences and stated that licences will generally be issued as a matter of course after 21 days.

Ownership restrictions for the Canadian broadcasting industry, which apply to TELUS in respect of the TELUS Multimedia trial, are determined by the *Broadcasting Act*. The *Broadcasting Act* declares, as part of the broadcasting policy for Canada, that the Canadian broadcasting system shall be effectively owned and controlled by Canadians. To give effect to this policy, the federal cabinet has issued directives to the CRTC, stating that a broadcasting licence may not be issued to an applicant that is a non-Canadian or is controlled by a non-Canadian. A corporation applying for a broadcasting licence qualifies as being Canadian if 80% or more of its directors and voting shareholders are Canadian. A subsidiary corporation qualifies as being Canadian if the parent corporation is incorporated in Canada, Canadians beneficially own and control not less than 66⅔% of the voting shares of the parent and the parent corporation does not exercise control over or influence any programming decisions of the subsidiary. In order to comply with these requirements, BCT.TELUS will allow TELUS Multimedia to operate under the control of the Board of Directors in place immediately prior to the Effective Date independent of programming control by its parent TELUS or by BCT.TELUS during the term of its broadcasting licence for the TELUS Multimedia Trial, which expires on May 31, 1999.

Other Conditions Precedent

The Arrangement is subject to certain other conditions being satisfied including the reaffirmation at the Effective Date of the opinions of each of the auditors of BC TELECOM and TELUS regarding the acceptability of the pooling of interests method under Canadian GAAP to account for the business combination. See "Details of the Arrangement and Related Transactions — The Arrangement Agreement".

PROCEDURES FOR EXCHANGE OF SHARE CERTIFICATES

Exchange of BC TELECOM Common Shares

Enclosed with this Joint Circular is a letter of transmittal which, when duly completed and returned by BC TELECOM Common Shareholders together with a certificate(s) for BC TELECOM Common Shares, will enable each BC TELECOM Common Shareholder to receive certificates representing the appropriate number of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares for each BC TELECOM Common Share, to which such holder is entitled pursuant to the Arrangement.

BC TELECOM Common Shareholders are encouraged to deliver a duly completed letter of transmittal together with the relevant share certificate(s) to the Depository as soon as possible. If the Arrangement proceeds and a letter of transmittal together with the relevant share certificate(s) are delivered to the Depository, then the BCT.TELUS Common Share certificate(s) and BCT.TELUS Non-Voting Share certificate(s) issuable to a former holder of BC TELECOM Common Shares will, as soon as practicable, be: (i) forwarded to the holder at the address specified in the letter of transmittal by first class mail; or (ii) made available at the offices of the Depository for pickup by the holder, if requested by the holder in the letter of transmittal. If a letter of transmittal together with the relevant share certificate(s) are received by the Depository on or before 5:00 p.m. (local time) on January 18, 1999, the BCT.TELUS share certificates will be forwarded or made available within a short period after the Effective Date. **Any use of the mail to transmit a certificate(s) for BC TELECOM Common Shares and a related letter of transmittal is at the risk of the BC TELECOM Common Shareholder. If these documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used. BC TELECOM Common Shareholders who do not forward a duly completed letter of transmittal and the relevant share certificate(s) prior to January 18, 1999, must, if the Arrangement proceeds, submit such letter of transmittal and certificate(s) prior to the sixth anniversary of the Effective Date to avoid losing their entitlement to the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued under the Arrangement.**

If the Arrangement proceeds, BC TELECOM Common Shares will cease to be publicly traded on the last business day prior to the Effective Date. After the Effective Date, BC TELECOM Common Share certificates will only represent an entitlement to receive certificates evidencing BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares issued under the Arrangement upon surrender of the relevant certificate(s) and a duly completed letter of transmittal to the Depository.

If the Arrangement does not proceed, all certificates representing BC TELECOM Common Shares transmitted with a related letter of transmittal will be returned to BC TELECOM Common Shareholders at the address specified in the letter of transmittal by first class mail.

Where a certificate(s) for BC TELECOM Common Shares has been destroyed, lost or mislaid, the registered holder of that certificate(s) should immediately contact Montreal Trust Company of Canada regarding the issuance of a replacement certificate(s) upon the holder satisfying such requirements as may be imposed by BC TELECOM in connection with issuance of the replacement certificate(s), including payment of the required lost certificate fee, calculated based on 2% of market value of the BC TELECOM Common Shares or the BCT.TELUS Shares, as at and depending on the time of notification, subject to a minimum fee of $20.00.

Exchange of TELUS Common Shares

Enclosed with this Joint Circular is a letter of transmittal which, when duly completed and returned by TELUS Common Shareholders together with a certificate(s) for TELUS Common Shares, will enable each TELUS Common Shareholder to receive certificates representing the appropriate number of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares for each TELUS Common Share, to which such holder is entitled pursuant to the Arrangement.

TELUS Common Shareholders are encouraged to deliver a duly completed letter of transmittal together with the relevant share certificate(s) to the Depository as soon as possible. If the Arrangement proceeds and a letter of transmittal together with the relevant share certificate(s) are delivered to the Depository, then the BCT.TELUS Common Share certificate(s) and BCT.TELUS Non-Voting Share certificate(s) issuable to a former holder of TELUS Common Shares will, as soon as practicable, be: (i) forwarded to the holder at the address specified in the letter of transmittal by first class mail; or (ii) made available at the offices of the

Depository for pickup by the holder, if requested by the holder in the letter of transmittal. If a letter of transmittal together with the relevant share certificate(s) are received by the Depository on or before 5:00 p.m. (local time) on January 18, 1999, the BCT.TELUS share certificates will be forwarded or made available within a short period after the Effective Date. **Any use of the mail to transmit a certificate(s) for TELUS Common Shares and a related letter of transmittal is at the risk of the TELUS Common Shareholder. If these documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used. TELUS Common Shareholders who do not forward a duly completed letter of transmittal and the relevant share certificate(s) prior to January 18, 1999, must, if the Arrangement proceeds, submit such letter of transmittal and certificate(s) prior to the sixth anniversary of the Effective Date to avoid losing their entitlement to the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued under the Arrangement.**

If the Arrangement proceeds, TELUS Common Shares will cease to be publicly traded on the last business day prior to the Effective Date. After the Effective Date, TELUS Common Share certificates will only represent an entitlement to receive certificates evidencing BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares issued under the Arrangement upon surrender of the relevant certificate(s) and a duly completed letter of transmittal to the Depository.

If the Arrangement does not proceed, all certificates representing TELUS Common Shares transmitted with a related letter of transmittal will be returned to TELUS Common Shareholders at the address specified in the letter of transmittal by first class mail.

Where a certificate(s) for TELUS Common Shares has been destroyed, lost or mislaid, the registered holder of that certificate(s) should immediately contact Montreal Trust Company of Canada regarding the issuance of a replacement certificate(s) upon the holder satisfying such requirements as may be imposed by TELUS in connection with issuance of the replacement certificate(s), including payment of the required lost certificate fee, calculated based on 2% of market value of the TELUS Common Shares or the BCT.TELUS Shares, as at and depending on the time of notification, subject to a minimum fee of $20.00.

Fractional Shares

Except as set out below, no fractional BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares will be issued.

In lieu of the issue of certificates representing fractional BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares, each person, except participants in certain plans, entitled to a fractional interest in a BCT.TELUS Common Share or BCT.TELUS Non-Voting Share will receive from BCT.TELUS an amount of cash (rounded to the nearest whole cent) equal to the product obtained when such fraction is multiplied by the weighted average trading price for BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares, as the case may be, on the TSE for the first three trading days on which the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares are traded on an issued basis following the Effective Date. Participants in the plans as of the Effective Date, shall have their interests, including fractional interests, recorded in their accounts on a non-certificated basis.

EFFECTIVE DATE

Subject to the approval of the matters detailed in the respective Special Resolutions, the full texts of which are attached in Appendix A to this Joint Circular, by the BC TELECOM Shareholders and the TELUS Shareholders, and provided that the conditions specified in the Arrangement Agreement have been satisfied or waived, the parties will proceed to file the Articles of Arrangement. Upon such filings, the Arrangement will be effective. As at the date hereof, it is anticipated that the Arrangement will become effective on or about 11:59 p.m. (Pacific Standard Time) on the 31st day of January, 1999.

ACCOUNTING TREATMENT

The respective boards of directors of each of BC TELECOM and TELUS have received opinions from each of their auditors concurring with managements' intention to account for the Arrangement using the pooling of interests method under Canadian GAAP. Under the pooling of interests method, the assets and liabilities of BC TELECOM and TELUS will be reflected in the financial statements of BCT.TELUS at the values recorded in BC TELECOM and TELUS financial statements as at January 31, 1999.

STOCK EXCHANGE LISTINGS

Each of the TSE, ME, ASE and VSE has conditionally approved the listing of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued in connection with the Arrangement, subject to the fulfillment of all stock exchange requirements.

EMPLOYEE MATTERS

As at the Effective Date, employees of BC TELECOM and TELUS subsidiaries will, except in certain circumstances, continue their employment. Senior executives not continuing with BCT.TELUS will receive benefits in accordance with the change of control or severance policies of their current employer. Over the next three years a process to align the organizations will occur.

At BCT.TELUS there will be seven collective agreements. These agreements currently involve four different bargaining agents and cover a total of approximately 18,200 unionized employees. The four agents are:

- International Brotherhood of Electrical Workers (Local 348)
- Civic Service Union 52
- Communications Energy and Paperworkers Union
- Telecommunications Workers Union

Both BC TELECOM and TELUS are currently either in negotiations or entering into negotiations on four collective agreements. Both companies have reasonable labour relations and anticipate maintaining that relationship.

ELIGIBILITY FOR INVESTMENT

In the opinion of Farris, Vaughan, Wills & Murphy, counsel to BC TELECOM, and Bennett Jones, counsel to TELUS, subject to compliance with the prudent investment standards and general investment provisions of the following statutes (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies, procedures or goals which comply with such statutes and, in certain circumstances, the filing of such policies, procedures and goals pursuant to such statutes, BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued on the Effective Date are not, at the date hereof, precluded as investments for purchasers to which the following statutes and regulations made thereunder apply:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Act (Ontario)
an Act respecting insurance (Québec) in respect of an investment by an insurer, as defined in such Act (other than a guarantee fund corporation)
an Act respecting trust companies and savings companies (Québec) in respect of a savings company licensed thereunder and a trust company licensed thereunder investing its own funds and deposits it receives
Supplemental Pension Plans Act (Québec)
Alberta Heritage Savings Trust Fund Act (Alberta)
Employment Pension Plans Act (Alberta)
Insurance Act (Alberta)
Loan and Trust Corporations Act (Alberta)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)
The Insurance Act (Manitoba)
The Pension Benefits Act (Manitoba)
The Trustee Act (Manitoba)
The Pension Benefits Act, 1992 (Saskatchewan)
Pension Benefits Act (New Brunswick)

Qualified Investments. In the opinion of Thorsteinssons, special tax counsel to BC TELECOM, and Bennett Jones, counsel to TELUS, had the Arrangement been effective on the date hereof, BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares, when listed on a prescribed stock exchange (which currently includes the TSE, ME, ASE and VSE) would also be qualified investments under the Tax Act for trusts

governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans and will not constitute foreign property, as that term is defined in the Tax Act, for such plans.

RESALE OF BCT.TELUS SHARES

Canada. BC TELECOM and TELUS are applying for and expect to receive rulings or orders of certain provincial securities regulatory authorities in Canada necessary to permit the issuance to BC TELECOM Shareholders and TELUS Shareholders of the BCT.TELUS Shares in such provinces and to permit the resale of the BCT.TELUS Shares provided such resale is made through a registered dealer and is not made by a "control person" as defined by securities legislation. Upon the completion of the Arrangement, BCT.TELUS will be a "reporting issuer" or will have similar status in all provinces of Canada, the Northwest Territories and the Yukon Territory.

United States. The BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares to be issued to former holders of BC TELECOM Common Shares or TELUS Common Shares pursuant to the Arrangement will not be registered under the *Securities Act of 1933* in reliance upon the exemption from registration provided by Section 3(a)(10) of the *Securities Act of 1933*. The BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares received pursuant to the Arrangement may be resold without restriction by shareholders who were not an "affiliate" of BC TELECOM or TELUS before the Arrangement and who are not an "affiliate" of BCT.TELUS after the Arrangement. For purposes of the *Securities Act of 1933*, an "affiliate" is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified. The term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Security holders who were affiliates of either BC TELECOM or TELUS before the Arrangement or who will be affiliates of BCT.TELUS after the Arrangement are subject to resale restrictions under the *Securities Act of 1933*.

BC TELECOM and TELUS shareholders resident in the United States or otherwise residing outside of Canada who are exchanging their shares pursuant to the Arrangement are urged to consult their legal advisors to determine the extent of all applicable resale provisions.

COSTS OF THE ARRANGEMENT

The combined estimated third party fees, costs and expenses of BC TELECOM and TELUS in connection with the Arrangement including, without limitation, financial advisors' fees, regulatory filing fees, legal and accounting fees, and printing and mailing costs are approximately $52 million. These costs will be charged to retained earnings of BCT.TELUS as reflected in the unaudited pro forma consolidated financial statements attached hereto as Appendix I.

INVESTMENT CONSIDERATIONS

Industry Considerations

Each of the current Annual Information Forms for BC TELECOM and TELUS attached hereto in Appendix G and H, respectively, contain disclosure on the telecommunications industry and regulatory considerations. The following is an overview of CRTC regulation and a discussion of new developments in those areas since the filing of the Annual Information Forms that affect each of the lines of business of BCT.TELUS.

Overview of CRTC Regulation

The CRTC has taken steps to open the industry to greater competition over the past two decades. In 1979, the CRTC permitted CNCP Telecommunications to interconnect its private lines with the public switched telephone network of Bell Canada. This decision was followed by decisions permitting the interconnection of customer provided terminal equipment, competitive enhanced service providers, cellular service providers, radiopaging services, facsimile services, public cordless telephone services, and resellers. In 1992, the CRTC permitted facilities-based competition in the long distance business. In 1997, the CRTC opened up the local

telephone market to competition effective January 1, 1998 and later in 1998 introduced public pay telephone competition.

As particular services have become competitive, the CRTC has responded by gradually releasing the members of the Stentor Alliance from traditional regulatory requirements and from rate of return regulation. The markets for wireless telephony services, terminal equipment, certain data services, long distance services, including competitive routes in the interexchange private line market, have all been found by the CRTC to be sufficiently competitive to permit the CRTC to refrain from regulating these services and the CRTC has done so through the issuance of forbearance orders. These forbearance orders relieve the members of the Stentor Alliance from the obligation to file tariffs for CRTC approval of price changes. In most cases, forbearance orders continue to require that the services be subject to "light-handed" CRTC regulation with respect to the treatment of customer-confidential information and the requirement to ensure access to networks that is not unjustly discriminatory or unduly preferential. In some cases, the forbearance orders also require that the incumbent companies allow resale and sharing of the services in question. In order to promote competition, the CRTC requires the incumbent companies to permit interconnection and, in some cases, unbundle certain network facilities in order to allow competition to develop in markets which are not yet fully competitive, such as the local exchange market. The CRTC also maintains safeguards against cross-subsidization and anti-competitive pricing by members of the Stentor Alliance, such as price cap regulation of local services and the requirement for an imputation test showing that a particular service offering which is not fully competitive is priced above incremental cost.

The result of all of these market and regulatory developments is that the Canadian telecommunications companies must now rely on their own abilities in the market place to ensure their strong financial performance rather than rely on traditional rate of return regulation. To do so, they must grow outside of their traditional geographic and service markets.

Long Distance Services

On October 1, 1998 the CRTC established a framework for competition in the international services market to coincide with the Government of Canada's decision to terminate the monopoly of Teleglobe Canada Inc. over telecommunications facilities linking Canada to overseas destinations. The decision sets forth the requirements for licensing of entities who operate telecommunications facilities to provide basic international telecommunications services, or resell those services, including Canada-US telecommunications services. The decision also removes routing restrictions through the United States such that it is now possible for Canadian companies to route Canada-Canada and Canada-overseas voice and data transmissions through the United States. This decision indicates the CRTC's commitment to fostering competition in the Canadian telecommunications industry and provides BCT.TELUS with an opportunity to benefit from diversity of traffic routing through the network of GTE. See "BCT.TELUS Communications Inc. — Business Strategy".

Local Services

Arising out of the local competition decisions, the detailed decisions required to implement the interconnections for local competition are being negotiated by the industry participants through the CRTC Interconnection Steering Committee (the "CISC"). Several subcommittees comprised of industry and CRTC representatives are dealing with Intercarrier Operations, Numbering, Intercarrier Administration, Network Interconnection and Co-location implementation. Certain of these subcommittees have agreed to incorporate consortia for numbering, local number portability and portable contribution administration with industry participants, including TELUS Communications Inc. and BC TEL. Following completion of the Arrangement, BCT.TELUS representatives will continue to participate in the CISC and its subcommittees.

The local competition decisions maintained the Stentor Alliance members' obligation to serve customers in their respective operating territories, pending the results of a public process to determine an approach for serving high cost areas in a fully competitive environment. Although the results of the public process have not been rendered by the CRTC, the CRTC intends to implement by January 1, 2000, a mechanism for dealing with high cost serving areas and redefining the Stentor Alliance members' obligation to serve.

On November 30, 1998, the CRTC issued an interim decision on the implementation of price cap regulation in the City of Edmonton. The price cap plan which has been established and implemented in the City of Edmonton, effective January 1, 1999, conforms with the plans implemented on January 1, 1998 for the local services operations of BC TELECOM and TELUS. As a result, prices for the local services of BCT.TELUS may fluctuate below pre-determined upper limits without triggering a regulatory review so that the company can harness incentives to become more efficient. The price cap regime for the local services of BCT.TELUS will be in force until January 1, 2002 and will be reviewed by the CRTC in the final year of the price cap period. Such review may result in an extension of price cap regulation or the elimination of rate regulation for some or all of the local services.

On June 30, 1998, the CRTC introduced competition in the local pay telephone service market. Pursuant to this decision, entrants must register with the CRTC and must attest to compliance with consumer protection safeguards, such as protection of privacy, access to emergency service, access for persons with disabilities and proper disclosure of rates being charged.

Wireless Services

On October 2, 1998, the CRTC issued a forbearance order covering NBTel's in-house cellular and PCS operations, relieving it from most of the provisions of the *Telecommunications Act* including the requirement to file tariffs for CRTC approval. However, the provision of these services will continue to be subject to "light-handed" CRTC regulation with respect to the treatment of customer-confidential information and the requirement to ensure non-discriminatory access to its network. The decision reaffirmed that the market for cellular/PCS services is competitive and found that the existence of the split of the rate base and price cap regulation would permit regulatory forbearance in respect of cellular/PCS services carried on in-house by the members of the Stentor Alliance. It is anticipated that similar treatment would apply to the provision of wireless services by TELUS Communications Inc. following the reorganization referred to in "Information Relating to TELUS — Recent Developments".

On November 3, 1998, the CRTC denied an application by certain competitors for an order requiring the federally regulated cellular providers and PCS providers to permit: (i) interconnection on an equal access basis to their networks; (ii) the unbundling of wireless access from call processing, switching and transmission; (iii) physical and virtual co-location of switching and other equipment; (iv) local number portability; and (v) the termination of any exclusive agreements or arrangements between the cellular and PCS providers and specific wireline carriers.

Private Line and Data

Many private line and data services have been granted forbearance by the CRTC. On November 20, 1998, the CRTC extended the ex parte process for applications for price reductions to those High Capacity and Digital Data Systems which have not yet been forborne. As a result of this decision BCT.TELUS will have greater flexibility in implementing price changes for these services.

Convergence

On March 23, 1998, the CRTC approved an application by NBTel for a broadcasting distribution undertaking (cable television), which will enable NBTel to compete with the incumbent cable television company serving the province of New Brunswick, including bundling telephone and cable television services. The CRTC has recently initiated a proceeding under the *Broadcasting Act* and *Telecommunications Act* dealing with the effect of "new media" (primarily services offered through the internet) on the Canadian cultural, political, social and economic objectives and the effect of "new media" on the achievement of the Canadian telecommunications policy objectives set out in the *Telecommunications Act*.

BCT.TELUS Considerations

Upon the Effective Date, Shareholders will hold BCT.TELUS Shares. In addition to reviewing the entire contents of this Joint Circular, Shareholders are urged to carefully consider the matters set forth below regarding BCT.TELUS.

Regulatory Uncertainty

A significant portion of BCT.TELUS activities will remain regulated and accordingly, BCT.TELUS results of operations will be affected by changes in regulations and decisions by the regulators. Such regulations relate to, among other things, licensing, competition, the rates BCT.TELUS may charge for certain services, the operation and ownership by BCT.TELUS of its communications systems and the ability of BCT.TELUS to acquire interests in other communications systems. Change in the regulation of BCT.TELUS business activities including decisions by regulators affecting BCT.TELUS operations (such as the granting or renewal of licences or decisions as to rates BCT.TELUS may charge its customers) or changes in interpretations of existing regulations by courts or regulators, could adversely affect BCT.TELUS results of operations.

Risks of Integration

BC TELECOM and TELUS expect that the successful completion of the Arrangement will result in long-term strategic benefits and synergies. These anticipated benefits and synergies will depend in part on whether the operations of both of BC TELECOM and TELUS can be integrated in a timely, efficient and effective manner. There can be no assurance that this will occur. It is possible that this integration will not be accomplished smoothly or successfully. The integration of the operations will give rise to restructuring costs and charges. See "Benefits of the Transaction". It may be that the restructuring costs and charges will be greater than those currently anticipated and the difference may be material. The process of integrating the operations of the two organizations also could cause an interruption of, or a loss of momentum in, the activities of either or both of the companies, which could have an adverse effect on BCT.TELUS.

Stentor Alliance Restructuring

The business combination being effected by BC TELECOM and TELUS should have no impact on the Stentor Alliance or on any agreements between members of the Stentor Alliance and third parties providing products or services to such members including BC TELECOM, TELUS or, following the Effective Date, BCT.TELUS. The Stentor Alliance is in the process of being restructured and following such restructuring, members of the Stentor Alliance may commence providing communications services outside their traditional serving territories. This may increase competition against BCT.TELUS in its serving territory and, as it expands its business, in other geographic areas.

Labour Relations

A large majority of the employees of BC TELECOM and TELUS are represented by, or are members of, unions and there are different unions representing different bargaining units. Each of these bargaining units has its own collective agreement with varying terms and conditions. Though both BC TELECOM and TELUS have reasonable relations with the unions representing their employees, labour unrest, including strikes may result as BCT.TELUS moves to achieve its synergies. Also, additional costs may be incurred by BCT.TELUS if any of the unions achieve the right to represent all employees of BCT.TELUS and consolidate collective agreements.

National Business Plan

BCT.TELUS must successfully implement a national communications business plan in order to grow revenue and expand operations beyond its current serving territory. The implementation of such a plan requires the acquisition of transmission and switching facilities through a combination of purchase, lease and alliance arrangements. Such arrangements must provide a full complement of superior quality services and be launched expeditiously and economically in order to be successful.

Year 2000 Issue

The Year 2000 issue affects virtually all companies and organizations. BC TELECOM and TELUS have each implemented readiness programs focused on systems and products used in connection with their respective operations. Neither BC TELECOM nor TELUS anticipates incurring significant additional costs to address the Year 2000 issue other than those disclosed, and the effectiveness of their respective present efforts to address the Year 2000 issue cannot be assured. The effect of the Year 2000 issue on the business combination has not been

determined but the computer systems used by both companies in the principal aspects of their businesses are similar, and BCT.TELUS may have the systems of one of the Parties available to it if the other's fail. In addition, it is currently unknown whether vendors and other third parties, such as other telecommunication service providers and utilities with whom BC TELECOM and TELUS conduct business, will successfully address the Year 2000 issue with respect to their own computer systems. If the present efforts to address the Year 2000 issue are not successful, or if vendors and other third parties with whom BC TELECOM or TELUS conducts business do not successfully address the Year 2000 issue, BCT.TELUS business and financial condition could be adversely affected.

Technological Change

The telecommunications industry is subject to rapid and significant changes in technology. The effect of technological changes on the businesses of BCT.TELUS cannot be predicted. In addition, it will be impossible to predict with any certainty whether technology selected by BCT.TELUS will prove to be the most economic, efficient or capable of attracting customer usage. BCT.TELUS expects to fully exploit its access to the GTE intellectual property during the term of the Intellectual Property Agreement. There can be no assurance that the GTE intellectual property will be competitive or that BCT.TELUS will not encounter technological difficulties in the ongoing implementation of such intellectual property. Further, there can be no assurance that either BCT.TELUS or GTE will develop new products and services which will enable BCT.TELUS to compete effectively in the Canadian telecommunications market.

Intellectual Property Agreement and GTE Shareholdings

The right of BCT.TELUS to access GTE intellectual property under the Intellectual Property Agreement will expire ten years from the Effective Date, subject to operation of the automatic renewal provisions. Furthermore, the Intellectual Property Agreement may be subject to renegotiation after the first five years under certain circumstances. See "Relationship between GTE and BCT.TELUS After the Arrangement — Intellectual Property Agreement". BCT.TELUS is unable to predict whether the Intellectual Property Agreement will continue after the initial term on terms acceptable to BCT.TELUS and GTE. BCT.TELUS is also unable to predict whether events will arise that will lead to renegotiation of the Intellectual Property Agreement or the outcome of any renegotiation. Upon either the expiration or termination of the Intellectual Property Agreement for any reason, BCT.TELUS will have a license to use the then current technology on a perpetual, irrevocable and royalty-free but non-exclusive basis, which will allow BCT.TELUS to manage the transition to new technology.

As a result of its shareholdings, GTE is in a position to defeat any matter requiring the passing of a special resolution of shareholders which is required under the BCCA and the Articles of BCT.TELUS. Therefore, it is unlikely that the Board of Directors of BCT.TELUS will propose any matter to shareholders requiring the passing of a special resolution if GTE indicated that it was opposed to such matter.

See "Details of the Arrangement and Related Transactions — Relationship between GTE and BCT.TELUS After the Arrangement".

Competition

The communications industry in Canada is becoming more competitive. In addition to the traditional competitors to BCT.TELUS (other telecommunications companies), competitors now include cable television companies (local and data services), utility companies (data services), wireless service providers (voice and data services) and other data providers. As regulatory rules change and new alliances form, other competitors may enter the communications service market in BCT.TELUS serving territory, including the members of the Stentor Alliance. Increasing pressure from international forces may result in changes to the *Telecommunications Act* and related statutes reducing restrictions on non-Canadians holding or operating telecommunications common carriers in Canada or obtaining licenses to operate communications enterprises. This may result in an increase in the number of international companies entering into the communications services market in Canada, which may compete with the businesses of BCT.TELUS. This increased competition could result in a decrease in the anticipated revenues of BCT.TELUS.

CERTAIN INCOME TAX CONSIDERATIONS

Canadian Federal Income Tax Considerations

In the opinion of Thorsteinssons, special tax counsel to BC TELECOM, and Bennett Jones, counsel to TELUS, the following is a summary of the principal Canadian federal income tax considerations generally applicable to holders of BC TELECOM Common Shares and TELUS Common Shares who, for the purposes of the Tax Act, hold their respective shares as capital property, deal at arm's length with BC TELECOM or TELUS, as the case may be, and who, immediately after any respective disposition of BC TELECOM Common Shares or TELUS Common Shares to BCT.TELUS, will not alone or together with non-arm's length persons control BCT.TELUS or beneficially own shares of BCT.TELUS having a fair market value of more than 50% of the fair market value of all outstanding shares of BCT.TELUS. BC TELECOM Common Shares and TELUS Common Shares will each generally be considered to be capital property to a holder thereof provided that the holder does not hold any such shares in the course of carrying on a business of buying and selling shares and has not acquired such shares in a transaction considered to be an adventure in the nature of trade. Certain holders who are resident in Canada and who might not otherwise be considered to hold such shares as capital property may be entitled to have them treated as capital property by making the election provided by subsection 39(4) of the Tax Act. This summary is not applicable to a holder which is a "financial institution" as defined in the Tax Act for the purposes of the mark-to-market rules.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "Regulations") the current provisions of the *Canada-United States Income Tax Convention* (the "Tax Treaty") and counsels' understanding of the current administrative practices of Revenue Canada, Customs, Excise and Taxation ("Revenue Canada") to the extent noted. This summary also takes into account the amendments to the Tax Act and Regulations publicly announced by the Minister of Finance prior to the date hereof (the "Proposed Amendments") and assumes that all such Proposed Amendments will be enacted in their present form. However, no assurances can be given that the Proposed Amendments will be enacted in the form proposed, or at all. Except for the foregoing, this summary does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and it is not intended to be, and should not be construed to be, legal, business or tax advice to any particular holder. Accordingly, holders of BC TELECOM Common Shares and TELUS Common Shares should consult their own tax advisors as to the tax consequences to them of the Arrangement in their particular circumstances.

Holders Resident in Canada

The following portion of the summary is applicable only to holders of BC TELECOM Common Shares and TELUS Common Shares who are resident or deemed to be resident in Canada for the purposes of the Tax Act.

(a) **Holders Participating in the Arrangement**

Under the Arrangement, holders of BC TELECOM Common Shares or TELUS Common Shares, other than BC TELECOM Taxable Exchange Shareholders and TELUS Taxable Exchange Shareholders, will dispose of such shares to BCT.TELUS. BC TELECOM Taxable Exchange Shareholders and TELUS Taxable Exchange Shareholders (i.e., Tax-Exempt Shareholders and Non-Resident Shareholders) will dispose of their BC TELECOM Common Shares and TELUS Common Shares to AquisitionCo.

Disposition of BC TELECOM Common Shares and TELUS Common Shares to BCT.TELUS

Holders of BC TELECOM Common Shares or TELUS Common Shares, other than BC TELECOM Taxable Exchange Shareholders or TELUS Taxable Exchange Shareholders, will transfer such shares to BCT.TELUS in exchange for BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares. As a result of such exchange, the holder will, unless the holder includes any portion of the capital gain or capital loss otherwise determined in respect of such BC TELECOM Common Shares or TELUS Common Shares in computing their income for the taxation year in which the exchange occurs or files an election under subsection 85(1) of the Tax

Act as described below, be deemed to have disposed of their BC TELECOM Common Shares or TELUS Common Shares for proceeds of disposition equal to the adjusted cost base in respect of such shares immediately before the exchange, and to have acquired the BCT.TELUS Common Shares at a cost equal to the portion of such proceeds of disposition in respect of the BC TELECOM Common Shares or TELUS Common Shares exchanged for BCT.TELUS Common Shares (being 75% of the aggregate proceeds of disposition) and the BCT.TELUS Non-Voting Shares at a cost equal to the portion of such proceeds of disposition in respect of the BC TELECOM Common Shares or TELUS Common Shares exchanged for BCT.TELUS Non-Voting Shares (being 25% of the aggregate proceeds of disposition).

Holders of BC TELECOM Common Shares who received their BC TELECOM Common Shares in exchange for shares of BC TEL, which they had owned continuously since December 31, 1971, and who did not elect to realize a gain or loss on the exchange of their BC TEL shares, will in most cases compute their adjusted cost base of each BC TELECOM Common Share in accordance with the *Income Tax Application Rules* ("ITARs"). The ITARs may also apply in determining the adjusted cost base of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares they receive in return for their BC TELECOM Common Shares. Such holders of BC TELECOM Common Shares should consult their own tax advisors.

Based on the current administrative practice of Revenue Canada, a holder of BC TELECOM Common Shares or TELUS Common Shares who receives cash from BCT.TELUS not exceeding $200.00 in lieu of a fraction of a BCT.TELUS Common Share or a BCT.TELUS Non-Voting Share which would otherwise be received by the holder may reduce the adjusted cost base of the BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares, as the case may be, received by such holder by the amount of such cash. Alternatively, the capital gain or capital loss otherwise arising on the disposition may be reported.

If the holder chooses to treat the exchange of their BC TELECOM Common Shares or TELUS Common Shares for BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares as a taxable transaction, the holder will be considered to have disposed of the BC TELECOM Common Shares or TELUS Common Shares for proceeds of disposition equal to the aggregate of the fair market value at the Effective Time of the BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares received by the holder and the amount of any cash received in lieu of fractional shares. Such a holder of BC TELECOM Common Shares or TELUS Common Shares will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the BC TELECOM Common Shares or TELUS Common Shares, net of any reasonable costs associated with the disposition, exceed (or are less than) the holder's adjusted cost base of the BC TELECOM Common Shares or TELUS Common Shares. The cost to the holder of the BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares will be equal to the fair market value of such shares at the Effective Time.

At the request of a holder of BC TELECOM Common Shares or TELUS Common Shares who has disposed of such shares to BCT.TELUS (an "Eligible Holder"), BCT.TELUS will jointly elect with the holder under subsection 85(1) of the Tax Act (and under any similar provincial legislation) so as to permit such holder to elect proceeds of disposition for purposes of the Tax Act of the holder's BC TELECOM Common Shares or TELUS Common Shares, as the case may be, disposed of to BCT.TELUS (the "elected amount") within the limits specified in the Tax Act (or the applicable provincial legislation). Under the Tax Act, the elected amount may not be (a) less than the greater of (i) the holder's adjusted cost base of the BC TELECOM Common Shares or TELUS Common Shares and (ii) the amount of cash received by the holder in respect of such BC TELECOM Common Shares or TELUS Common Shares, or (b) greater than the fair market value of such BC TELECOM Common Shares or TELUS Common Shares at the Effective Time. In the event of such an election, the holder's cost of the BCT.TELUS Common Shares or BCT.TELUS Non-Voting Shares acquired to which the election relates will be the elected proceeds of disposition of the BC TELECOM Common Shares or TELUS Common Shares disposed of in exchange for such shares less any cash received on the exchange. A holder may realize a capital gain to the extent, if any, by which such elected proceeds of disposition exceed the holder's adjusted cost base of the BC TELECOM Common Shares or TELUS Common Shares disposed of in exchange for such shares.

The making of an election under subsection 85(1) of the Tax Act may result in more favourable tax consequences to an Eligible Holder depending upon the holder's particular circumstances. **Eligible Holders**

should consult their own tax advisors to determine the advisability of making an election under subsection 85(1) of the Tax Act and, if so, the selection of an elected amount therein.

It will be the responsibility of each Eligible Holder who wishes to make an election under subsection 85(1) of the Tax Act to obtain the necessary election forms and to fully complete all necessary forms indicating, among other requirements, the number of BC TELECOM Common Shares or TELUS Common Shares disposed of and the elected amount, to sign the forms where required, and to forward the signed forms by registered mail to BCT.TELUS at Box 1552, Edmonton, Alberta, T5J 2N7 together with their return address. BCT.TELUS will in turn sign the forms and mail them to the Eligible Holder within 45 days of their receipt by BCT.TELUS for filing by such Eligible Holder with Revenue Canada. **Eligible Holders should consult their own tax advisors to determine whether any separate election forms must be filed with any provincial taxing authority. Eligible Holders who wish to make an election under subsection 85(1) of the Tax Act, or under any provincial legislation, should submit the necessary election forms to BCT.TELUS as soon as possible. BCT.TELUS will not be liable for any loss or damage resulting from the late filing of any election form or from the invalidation of any election form unless such late filing or invalidation is solely attributable to any act or omission of BCT.TELUS.**

The general tax treatment of capital gains and losses is discussed below under the heading "Capital Gains and Losses".

Disposition of BC TELECOM Common Shares and TELUS Common Shares to AcquisitionCo.

On the transfer by a BC TELECOM Taxable Exchange Shareholder or TELUS Taxable Exchange Shareholder (i.e., a Tax-Exempt Shareholder or a Non-Resident Shareholder) of their BC TELECOM Common Shares or TELUS Common Shares to AcquisitionCo., a wholly owned subsidiary of BCT.TELUS, in exchange for BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares, such holder will be considered to have disposed of the BC TELECOM Common Shares or TELUS Common Shares for proceeds of disposition equal to the aggregate of the fair market value at the Effective Time of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares received by the holder and the amount of any cash received in lieu of any fractional shares. Such a holder of BC TELECOM Common Shares or TELUS Common Shares will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the BC TELECOM Common Shares or TELUS Common Shares, net of any reasonable costs associated with the disposition, exceed (or are less than) the holder's adjusted cost base of the BC TELECOM Common Shares or TELUS Common Shares. The cost to the holder of the BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares will be equal to the fair market value of such shares at the Effective Time.

The general tax treatment of capital gains and losses is discussed below under the heading "Capital Gains and Losses".

Capital Gains and Losses

A holder's taxable capital gain (or allowable capital loss) from the disposition of BC TELECOM Common Shares or TELUS Common Shares will be equal to three-quarters of the amount of the holder's capital gain (or capital loss) in respect of such disposition. The holder must include any such taxable capital gain in income for the taxation year of disposition, and may, subject to the detailed provisions of the Tax Act, deduct any such allowable capital loss from taxable capital gains in the year in which such allowable capital loss is realized. Subject to the detailed rules contained in the Tax Act, any remaining allowable capital loss may generally be applied to reduce net taxable capital gains realized by the holder in the three preceding and in all subsequent taxation years.

If the holder of a share is a corporation, the amount of any capital loss arising from a disposition or deemed disposition of a share may be reduced by the amount of dividends received or deemed to have been received by it on such share to the extent and under circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns shares or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns shares.

Capital gains realized by an individual may be subject to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Additional Refundable Tax

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on certain investment income, including amounts in respect of interest, and taxable capital gains (but not dividends or deemed dividends deductible in computing taxable income).

(b) **Dissenting Holders**

A holder who receives a payment from BC TELECOM or TELUS equal to the fair value of the holder's BC TELECOM Common Shares or TELUS Common Shares, as the case may be, as a result of the exercise of a right of dissent will be deemed to have received a taxable dividend equal to the amount by which the payment (other than an amount in respect of interest awarded by a court) exceeds the paid-up capital of such shares, except to the extent that, in the case of a corporation, such deemed dividend is included in the proceeds of disposition of the shares pursuant to subsection 55(2) of the Tax Act. The paid-up capital of the BC TELECOM Common Shares is estimated by BC TELECOM to be approximately $9.57 per share and the paid-up capital of the TELUS Common Shares is estimated by TELUS to be approximately $10.86 per share.

Deemed dividends received by a holder who dissents from the Arrangement will be included in computing the holder's income for purposes of the Tax Act. The gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations will apply to deemed dividends received by individuals and deemed dividends received by corporations will normally be deductible in computing taxable income. Certain corporations may be liable to pay a 33⅓% refundable tax under Part IV of the Tax Act on such deemed dividends and in certain cases all or part of a deemed dividend received by a corporation may be treated as a capital gain on the disposition of capital property pursuant to subsection 55(2) of the Tax Act. Corporate holders should consult their own tax advisors for advice with respect to the potential application of these provisions.

A dissenting holder will also be considered to have disposed of their BC TELECOM Common Shares or TELUS Common Shares, as the case may be, for proceeds of disposition equal to the amount paid to the holder less an amount in respect of interest awarded by a court and the amount of any deemed dividend not included in the proceeds of disposition of the shares pursuant to subsection 55(2) of the Tax Act, thereby giving rise to a capital gain or capital loss to the holder calculated in accordance with the provisions of the Tax Act.

The treatment of capital gains and losses is discussed above under "Capital Gains and Losses". In particular, for dissenting holders that are corporations, and certain trusts and partnerships, any capital loss otherwise determined will be reduced by dividends received on such shares, including any such deemed dividend, to the extent and under the circumstances described in the Tax Act.

Interest awarded to a dissenting holder by a court will be included in the dissenting holder's income for purposes of the Tax Act.

Since the cash payment received by a dissenting BC TELECOM Common Shareholder will be paid by BCT.TELUS, there is some uncertainty as to whether such a dissenting holder will be viewed as having received a dividend, or having received proceeds of disposition giving rise to a capital gain or a capital loss. The dissenting holder should be viewed as having received a dividend in the manner described above.

Holders Not Resident in Canada

The following portion of the summary is applicable only to holders of BC TELECOM Common Shares or TELUS Common Shares who are not and will not be resident nor deemed to be resident in Canada for the purposes of the Tax Act at any time while they hold such shares, who do not use or hold and are not deemed to use or hold their BC TELECOM Common Shares or TELUS Common Shares in carrying on a business in Canada, and in the case of a holder who carries on an insurance business in Canada and elsewhere, whose shares are not "designated insurance property" and are not effectively connected with an insurance business carried on in Canada at any time (a "Non-Resident Holder").

(a) **Non-Resident Holders Participating in the Arrangement**

Non-Resident Holders who participate in the Arrangement will not be subject to tax under the Tax Act in respect of any capital gains realized on the transfer of BC TELECOM Common Shares or TELUS Common Shares to AcquisitionCo., provided that such shares are listed on a prescribed stock exchange (which currently includes the TSE, ME, ASE and VSE), and the holder, persons with whom such holder does not deal at arm's length, or the holder together with all such persons, has not owned (or had under option) 25% or more of the issued shares of any class or series of the capital stock of BC TELECOM or TELUS, as the case may be, at any time within five years preceding the Effective Date, and the shares were not acquired in a transaction which deemed them to be "taxable Canadian property".

(b) **Dissenting Non-Resident Holders**

Non-Resident Holders who dissent from the Arrangement will be subject to the same income tax considerations as those above with respect to dissenting holders resident in Canada, except that such Non-Resident Holders will not be subject to tax under the Tax Act in respect of capital gains realized on the disposition of BC TELECOM Common Shares or TELUS Common Shares provided such Shares are not "taxable Canadian property" to such holder at the time of disposition. Dissenting Non-Resident Holders will be subject to withholding tax under the Tax Act in respect of deemed dividends and interest arising from the disposition of their shares as described above. The applicable withholding rate is 25% in respect of such amounts, although such rate may be reduced under the provisions of an applicable tax treaty. For example, under the Tax Treaty, the rate is generally reduced to 15% for dividends and 10% for interest paid to a person who is the beneficial owner of such shares and who is resident in the United States for the purposes of the Tax Treaty.

BC TELECOM Optionholders and TELUS Optionholders

In the opinion of Thorsteinssons, special tax counsel to BC TELECOM, and Bennett Jones, counsel to TELUS, BC TELECOM Optionholders or TELUS Optionholders who exchange their options for BCT.TELUS options pursuant to the Arrangement will not recognize any taxable income or loss under the Tax Act as a result of such exchanges, on the basis that the value of an option received on the exchange, determined immediately after the Arrangement, will not exceed the value of the exchanged option, determined immediately before the Arrangement. For the purposes of determining the treatment under the Tax Act of any subsequent transactions involving the BCT.TELUS options received on the exchange, including on the exercise of such options, such options will be treated as being the same options as the BC TELECOM options or TELUS options, as the case may be, exchanged for such options.

United States Federal Income Tax Considerations

The following is a summary of material U.S. federal income tax consequences of the Arrangement to BC TELECOM Common Shareholders and TELUS Common Shareholders that are citizens or residents of the United States, U.S. domestic corporations, or that otherwise are subject to U.S. federal income tax on a net income basis in respect of their investment in BC TELECOM Common Shares or TELUS Common Shares ("U.S. Holders"), that hold such shares as capital assets and that are not under jurisdiction of a court in a Title 11 (i.e. bankruptcy) or similar case. This summary is based on the current provisions of the Code, applicable treasury regulations, judicial authority, and administrative rulings and practice, and may be affected (possibly retroactively) by any changes thereto. Because no ruling from the Internal Revenue Service (the "IRS") has been or will be sought with respect to any aspect of the Arrangement, there can be no assurance that the IRS will not take a contrary view as to the tax consequences described herein.

This summary is for general information only and does not purport to deal with all aspects of federal income taxation that may be applicable to all shareholders. The tax treatment of a BC TELECOM Common Shareholder or a TELUS Common Shareholder may vary depending upon his or her particular situation, and certain shareholders (including insurance companies, thrift institutions, tax-exempt organizations, financial institutions, dealers in securities, persons who hold shares as part of a position in a "straddle" or as part of a "hedging", "conversion" or other integrated investment transaction for federal income tax purposes, traders in securities that elect mark-to-market treatment, and persons who have acquired shares upon exercise of incentive

stock options or otherwise as compensation for the performance of services) may be subject to special rules not discussed below. This summary does not address the tax treatment of holders of options to acquire BC TELECOM Common Shares or TELUS Common Shares.

THE DISCUSSION SET FORTH HEREIN IS NOT INTENDED AS A COMPLETE ANALYSIS OR DESCRIPTION OF ALL POTENTIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ARRANGEMENT AND DOES NOT ADDRESS TAX CONSEQUENCES WHICH MAY VARY WITH, OR ARE CONTINGENT ON, INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, EACH U.S. HOLDER IS STRONGLY URGED TO CONSULT WITH SUCH U.S. HOLDER'S TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES OF THE ARRANGEMENT INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER APPLICABLE TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGES IN TAX LAWS.

BC TELECOM Common Shareholders

In the opinion of Odell & Partners, special U.S. tax counsel to BC TELECOM, and Cleary, Gottlieb, Steen and Hamilton, special U.S. tax counsel to TELUS, based on certain representations as to factual matters made by BC TELECOM and TELUS, the exchange of BC TELECOM Common Shares for BCT.TELUS Shares followed by the complete liquidation of BC TELECOM into BCT.TELUS, pursuant to the Plan of Arrangement, will be treated as a transaction described in Sections 368(a) and 354 of the Code. Accordingly, except as discussed below and subject to satisfaction of the notice requirement described below, no gain or loss will be recognized for United States federal income tax purposes by U.S. Holders of BC TELECOM Common Shares who exchange their BC TELECOM Common Shares for BCT.TELUS Shares. The aggregate tax basis of the BCT.TELUS Shares received by a U.S. Holder of BC TELECOM Common Shares in the Arrangement will be the same as the aggregate tax basis of the BC TELECOM Common Shares surrendered by such U.S. Holder in the exchange (reduced by the amount of tax basis allocable to fractional shares for which cash is received), and the holding period of the BCT.TELUS Shares received by a U.S. Holder in the exchange will include the period that the U.S. Holder held the BC TELECOM Common Shares exchanged therefor.

As to the U.S. Holders of BC TELECOM Common Shares, this transaction is described in Section 367(b) of the Code, and therefore the United States tax consequences described above to each U.S. Holder may be conditioned on such U.S. Holder filing a notice with the U.S. Holder's federal income tax returns for the U.S. Holder's taxable year in which the transaction occurs. BCT.TELUS will supply the form of such notice to BC TELECOM U.S. Holders who can be identified as such in a separate mailing as soon as practicable after the Effective Date. It is anticipated that such forms will be mailed to all shareholders listing an address in the United States as determined through the Depository. Any other U.S. Holders should contact BCT.TELUS at Box 1552, Edmonton, Alberta, T5J 2N7 to request the required notice and provide an address to where such notice shall be mailed. This notice must be filed with the U.S. Holder's United States federal income tax return for the U.S. Holder's taxable year in which the Arrangement is consummated.

Cash received by a U.S. Holder pursuant to the exercise of a right of dissent or for a fractional share interest in BC TELECOM Common Shares will be treated as paid in redemption of the U.S. Holder's Common Shares or fractional share. In general, this will result in the recognition of capital gain or loss for United States federal income tax purposes, measured by the difference between the amount of cash received and the U.S. Holder's tax basis in the BC TELECOM Common Shares surrendered by the U.S. Holder (or, in the case of payment of cash for fractional share interests, the portion of the U.S. Holder's tax basis in the BC TELECOM Common Share allocable to such fractional share interest). Such capital gain or loss will be long-term capital gain or loss if such BC TELECOM Common Shares have been held for more than one year at the Effective Time.

Notwithstanding the foregoing, cash received in lieu of fractional shares or upon the exercise of dissenters' rights by a U.S. Holder may be treated in its entirety as taxable dividend income if, as a result of purchases of BCT.TELUS Shares or BC TELECOM Shares in connection with the Arrangement, the percentage ownership interest in BCT.TELUS that is owned (directly, indirectly and by attribution) by the U.S. Holder immediately after the Arrangement is not lower than the percentage ownership interest of such U.S. Holder in

BC TELECOM immediately prior to the Arrangement. For purposes of this calculation, a U.S. Holder would be deemed to own stock owned by certain family members or by related corporations, partnerships, trusts or estates.

Backup withholding at the rate of 31% may apply to the proceeds from the taxable sale, exchange or other disposition by a U.S. Holder of BC TELECOM Common Shares unless the U.S. Holder is a corporation or other exempt recipient or provides certain certification, including a correct taxpayer identification number. Any withheld amount generally will be allowed as a credit against the U.S. Holder's U.S. federal income tax, provided the required information is timely filed with the IRS.

TELUS Common Shareholders

In the opinion of Cleary, Gottlieb, Steen and Hamilton, special U.S. tax counsel to TELUS, and Odell & Partners, special U.S. tax counsel to BC TELECOM, based on certain representations as to factual matters by TELUS and BC TELECOM, the transfer of TELUS Common Shares by its shareholders to BCT.TELUS pursuant to the Arrangement will be described in Section 351 of the Code. Accordingly, except as discussed below, no gain or loss will be recognized for United States federal income tax purposes by a U.S. Holder who exchanges their TELUS Common Shares for BCT.TELUS Shares. The aggregate tax basis of the BCT.TELUS Shares received by a U.S. Holder of TELUS Common Shares in the Arrangement will be the same as the aggregate tax basis of the TELUS Common Shares surrendered by such U.S. Holder in the exchange (reduced by the amount of tax basis allocable to fractional shares for which cash is received), and the holding period of the BCT.TELUS Shares received by a U.S. Holder in the exchange will include the period that the U.S. Holder held the TELUS Common Shares exchanged therefor.

Cash received by a U.S. Holder pursuant to exercise of a right of dissent or for a fractional share interest in TELUS Common Shares will be treated as paid in redemption of the U.S. Holder's Common Shares or fractional share. In general, this will result in the recognition of capital gain or loss for United States federal income tax purposes, measured by the difference between the amount of cash received and the U.S. Holder's tax basis in the TELUS Common Shares surrendered by the U.S. Holder (or, in the case of payment of cash for fractional share interests, the portion of the U.S. Holder's tax basis in the TELUS Common Share allocable to such fractional share interest). Such capital gain or loss will be long-term capital gain or loss if such TELUS Common Shares have been held for more than one year at the Effective Time.

Notwithstanding the foregoing, cash received in lieu of fractional shares or upon the exercise of dissenters' rights by a U.S. Holder may be treated in its entirety as taxable dividend income if, as a result of purchases of BCT.TELUS Shares or TELUS Shares in connection with the Arrangement, the percentage ownership interest in BCT.TELUS that is owned (directly, indirectly and by attribution) by the U.S. Holder immediately after the Arrangement is not lower than the percentage ownership interest of such U.S. Holder in TELUS immediately prior to the Arrangement. For purposes of this calculation, a U.S. Holder would be deemed to own stock owned by certain family members or by related corporations, partnerships, trusts or estates.

Backup withholding at the rate of 31% may apply to the proceeds from the taxable sale, exchange or other disposition by a U.S. Holder of TELUS Common Shares unless the U.S. Holder is a corporation or other exempt recipient or provides certain certification, including a correct taxpayer identification number. Any withheld amount generally will be allowed as a credit against the U.S. Holder's U.S. federal income tax, provided the required information is timely filed with the IRS.

BC TELECOM SHAREHOLDERS RIGHTS OF DISSENT

The following description of the rights of registered BC TELECOM Shareholders to dissent and be paid fair value for their shares, granted by virtue of the Interim Order, is not a comprehensive statement of the procedures to be followed by a registered BC TELECOM Shareholder who dissents and seeks payment of the fair value of that holder's BC TELECOM Shares and is qualified in its entirety by the reference to the full text of the Interim Order and Section 190 of the CBCA which are attached to this Joint Circular as Appendix C and D, respectively. A registered BC TELECOM Shareholder who intends to exercise a right of dissent and appraisal should carefully consider and comply with the provisions of that section, as modified by the Interim Order, and should seek independent legal advice. Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.

The BC Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered BC TELECOM Shareholder is entitled, in addition to any other right that a BC TELECOM Shareholder may have, to dissent and to be paid by BC TELECOM the fair value of the BC TELECOM Shares held by that BC TELECOM Shareholder in respect of which that BC TELECOM Shareholder dissents, determined as of the close of business on the last business day before the day on which the resolution from which that BC TELECOM Shareholder dissents was adopted. A BC TELECOM Shareholder may dissent only with respect to all of the BC TELECOM Shares held by that BC TELECOM Shareholder or on behalf of any one beneficial owner. Further, a BC TELECOM Shareholder may only dissent in respect of BC TELECOM Shares registered in the dissenting shareholder's name. The demand for appraisal must be executed by or for the holder of record, fully and correctly, as such holder's name appears on the holder's security certificates. If the securities are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the securities are owned of record by more than one person, as in a joint tenancy or a tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; however, such agent must expressly identify the record owner or owners, and expressly disclose in such demand that the agent is acting as agent for the record owner or owners.

Persons who are beneficial owners of BC TELECOM Common Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent, should be aware that only the registered owner of such securities is entitled to dissent. A registered holder such as a broker who holds BC TELECOM Common Shares as nominee for beneficial owners, some of whom desire appraisal, must exercise dissent rights on behalf of such beneficial owners with respect to the securities held for such beneficial owners. In such case, the demand for appraisal should set forth the number of BC TELECOM Common Shares covered by it.

A registered BC TELECOM Shareholder wishing to dissent must send to BC TELECOM a written objection to the BC TELECOM Special Resolution. The written objection (the "Notice of Dissent") must be received by the Secretary of BC TELECOM in care of Montreal Trust Company of Canada at 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 on or before 5:00 p.m. (Pacific Standard Time) on January 20, 1999, or delivered to the Chairman of the BC TELECOM Meeting before the commencement of the BC TELECOM Meeting. The sending of a Notice of Dissent does not deprive a registered shareholder of the right to vote on the BC TELECOM Special Resolution but a vote either in person or by proxy against the BC TELECOM Special Resolution does not constitute a Notice of Dissent. A vote in favour of the BC TELECOM Special Resolution will deprive the registered shareholder of further rights under Section 190 of the CBCA.

Within ten days after the adoption of the BC TELECOM Special Resolution by the BC TELECOM Shareholders, BC TELECOM is required to notify in writing each BC TELECOM Shareholder who has filed a Notice of Dissent and has not voted for the BC TELECOM Special Resolution or withdrawn that BC TELECOM Shareholder's objection (a "Dissenting Shareholder") that the BC TELECOM Special Resolution has been adopted. A Dissenting Shareholder shall, within 20 days after he receives notice of adoption of the BC TELECOM Special Resolution or, if that Dissenting Shareholder does not receive such notice, within 20 days after that Dissenting Shareholder learns that the BC TELECOM Special Resolution has been adopted,

send to BCT.TELUS a written notice (the "Demand for Payment") containing the Dissenting Shareholder's name and address, the number of BC TELECOM Shares in respect of which that Dissenting Shareholder dissents, and a demand for payment of the fair value of such securities. Within 30 days after sending that Dissenting Shareholder's Demand for Payment, the Dissenting Shareholder shall send the certificates representing the securities (other than a BC TELECOM Option) in respect of which that Dissenting Shareholder dissents to BCT.TELUS or its transfer agent. BC TELECOM or the transfer agent shall endorse on the securities certificates a notice that the holder thereof is a Dissenting Shareholder under Section 190 of the CBCA and shall forthwith return the securities certificates to the Dissenting Shareholder. A Dissenting Shareholder who fails to send the Dissenting Shareholder securities certificates within the aforementioned time period has no right to make a claim under Section 190 of the CBCA.

After sending a Demand for Payment, a Dissenting Shareholder ceases to have any rights as a holder of the security in respect of which the Dissenting Shareholder has dissented other than the right to be paid the fair value of such securities as determined under Section 190 of the CBCA, unless: (i) the Dissenting Shareholder withdraws that Dissenting Shareholder's Demand for Payment before BCT.TELUS makes a written offer to pay (the "Offer to Pay"); (ii) BCT.TELUS fails to make a timely Offer to Pay to the Dissenting Shareholder and the Dissenting Shareholder withdraws that Dissenting Shareholder's Demand for Payment; (iii) the directors of BC TELECOM revoke the BC TELECOM Special Resolution; (iv) the Arrangement Agreement is terminated; or (v) the application by BC TELECOM to the BC Court for the final Order is not refused and all appeal rights have been exhausted, in all of which cases the Dissenting Shareholder's rights as a shareholder are reinstated.

Not later than seven days after the later of the Effective Date and the day BC TELECOM receives the Demand for Payment, BC TELECOM shall send, to each Dissenting Shareholder who has sent a Demand for Payment, an Offer to Pay for the shares of the Dissenting Shareholder in respect of which the Dissenting Shareholder has dissented in an amount considered by the directors of BCT.TELUS to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Pay made to Dissenting Shareholders shall be on the same terms. The amount specified in an Offer to Pay which has been accepted by a Dissenting Shareholder shall be paid by BCT.TELUS within ten days of the acceptance, but an Offer to Pay lapses if BCT.TELUS has not received an acceptance thereof within 30 days after the Offer to Pay has been made.

If an Offer to Pay is not made by BCT.TELUS or if a Dissenting Shareholder fails to accept an Offer to Pay, BC TELECOM may, within 50 days after the Effective Date or within such further period as a court of competent jurisdiction may allow, apply to the court to fix a fair value for the securities of any Dissenting Shareholder. If BC TELECOM fails to so apply to the court, a Dissenting Shareholder may apply to a court of competent jurisdiction for the same purpose within a further period of 20 days or within such further period as the court may allow. A Dissenting Shareholder is not required to give security for costs in any application to the court. Applications referred to in this paragraph may be made to a court of competent jurisdiction in the place where BCT.TELUS has its registered office or in the province where the Dissenting Shareholder resides if BCT.TELUS carries on business in that province.

On making an application to the court, BC TELECOM shall give to each Dissenting Shareholder who has sent to BC TELECOM a Demand for Payment and has not accepted an Offer to Pay, notice of the date, place and consequences of the application and of his or her right to appear and be heard in person or by counsel. All Dissenting Shareholders whose securities have not been purchased by BC TELECOM shall be joined as parties to any such application to the court to fix a fair value and shall be bound by the decision rendered by the court in the proceedings commenced by such application. The court is authorized to determine whether any other person is a Dissenting Shareholder who should be joined as a party to such application.

The court shall fix a fair value for the securities of all Dissenting Shareholders and may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder from the Effective Date until the date of payment of the amount ordered by the court. The final order of the court in the proceedings commenced by an application by BC TELECOM or a Dissenting Shareholder shall be rendered against BC TELECOM and in favour of each Dissenting Shareholder.

The above is only a summary of the dissenting shareholder provisions of the CBCA, which are technical and complex. A shareholder of BC TELECOM wishing to exercise a right to dissent should seek independent legal advice, as failure to comply strictly with the provisions of the statute may prejudice the right of dissent.

TELUS SHAREHOLDERS RIGHTS OF DISSENT

The following description of the rights of registered TELUS Shareholders to dissent and be paid fair value for their shares, granted by virtue of the Interim Order, is not a comprehensive statement of the procedures to be followed by a registered TELUS Shareholder who dissents and seeks payment of the fair value of that holder's TELUS Shares and is qualified in its entirety by the reference to the full text of the Interim Order and Section 184 of the ABCA which are attached to this Joint Circular in Appendix C and E, respectively. A registered TELUS Shareholder who intends to exercise a right of dissent and appraisal should carefully consider and comply with the provisions of that section, as modified by the Interim Order, and should seek independent legal advice. Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.

The Alberta Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered TELUS Shareholder is entitled, in addition to any other right that a TELUS Shareholder may have, to dissent and to be paid by TELUS the fair value of the TELUS Shares held by such Shareholder in respect of which such Shareholder dissents, determined as of the close of business on the last business day before the day on which the resolution from which such Shareholder dissents was adopted. A TELUS Shareholder may dissent only with respect to all of the TELUS Shares held by that Shareholder or on behalf of any one beneficial owner. Further, a TELUS Shareholder may only dissent in respect of TELUS Shares registered in the dissenting TELUS Shareholder's name. The demand for appraisal must be executed by or for the holder of record, fully and correctly, as such holder's name appears on the holder's security certificates. If the securities are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the securities are owned of record by more than one person, as in a joint tenancy or a tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; however, such agent must identify the record owner or owners and expressly identify the record owner or owners, and expressly disclose in such demand that the agent is acting as agent for the record owner or owners.

Persons who are beneficial owners of TELUS Common Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent, should be aware that only the registered owner of such securities is entitled to dissent. A registered holder such as a broker who holds TELUS Common Shares as nominee for beneficial owners, some of whom desire appraisal, must exercise dissent rights on behalf of such beneficial owners with respect to the securities held for such beneficial owners. In such case, the demand for appraisal should set forth the number of TELUS Common Shares covered by it.

A registered TELUS Shareholder wishing to dissent must send to TELUS a written objection to the TELUS Special Resolution. The written objection must be received on or before 5:00 p.m. (Mountain Standard Time) on January 18, 1999 by the Corporate Secretary of TELUS in care of Montreal Trust Company of Canada at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, or be delivered to the Chairman of the TELUS Meeting before the commencement of the TELUS Meeting. The sending of a Notice of Dissent does not deprive a registered shareholder of the right to vote on the TELUS Special Resolution but a vote either in person or by proxy against the TELUS Special Resolution does not constitute a Notice of Dissent. An application may be made to the Alberta Court to fix the value of the dissenting TELUS Shareholder's TELUS Shares after the Effective Date. If an application to the Alberta Court is made by either TELUS or a dissenting TELUS Shareholder, TELUS must, unless the Alberta Court otherwise orders, send to each dissenting TELUS Shareholder a written offer to pay him an amount considered by the Board of Directors of TELUS to be the fair value of the TELUS Shares. The offer, unless the Alberta Court otherwise orders, will be sent to each dissenting TELUS Shareholder at least ten days before the date on which the application is returnable, if TELUS is the applicant, or within ten days after TELUS is served with notice of the application, if a shareholder is the

applicant. The offer will be made on the same terms to each dissenting TELUS Shareholder and will be accompanied by a statement showing how the fair value was determined.

Dissenting TELUS Shareholders may make an agreement with TELUS for the purchase of their TELUS Shares in the amount of TELUS offer (or otherwise) at any time before the Alberta Court pronounces an order fixing the fair value of the TELUS Shares. A dissenting TELUS Shareholder is not required to give security for costs in respect of an application and, except in special circumstances, will not be required to pay the costs of the application or appraisal. On the application, the Alberta Court will make an order fixing the fair value of the TELUS Shares of all dissenting TELUS Shareholders who are parties to the application, giving judgment in that amount against TELUS and in favour of each of those dissenting TELUS Shareholders and fixing the time within which TELUS must pay that amount payable to the dissenting TELUS Shareholders. The Alberta Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting TELUS Shareholder calculated from the date on which the TELUS Shareholder ceases to have any rights as a TELUS Shareholder until the date of payment.

On the Arrangement becoming effective, or upon the making of an agreement between TELUS and the dissenting TELUS Shareholder as to the payment to be made by TELUS to the dissenting TELUS Shareholder or upon the pronouncement of an Alberta Court order, whichever first occurs, the dissenting TELUS Shareholder will cease to have any rights as a shareholder other than the right to be paid the fair value of the TELUS Shares in the amount agreed to between TELUS and the dissenting TELUS Shareholder or in the amount of the judgment, as the case may be. Until one of these events occurs, TELUS Shareholders may withdraw their dissent, or TELUS may rescind the TELUS Special Resolution and in either event, the dissent and appraisal proceedings in respect of such TELUS Shareholder will be discontinued.

The above is only a summary of the dissenting shareholder provisions of the ABCA and the Interim Order which are technical and complex. A TELUS Shareholder wishing to exercise a right to dissent should seek independent legal advice, as failure to comply strictly with the provisions of the Interim Order and the statute may prejudice the right of dissent.

INFORMATION RELATING TO BC TELECOM

Documents Incorporated by Reference

The following documents, filed by BC TELECOM with the various securities regulatory authorities in each of the provinces of Canada, are specifically incorporated by reference, attached hereto as Appendix G and form an integral part of this Joint Circular:

(i) BC TELECOM Annual Information Form for the year ended December 31, 1997;

(ii) BC TELECOM Management's Discussion and Analysis for the years ended December 31, 1997 and December 31, 1996;

(iii) BC TELECOM Audited Comparative Consolidated Financial Statements for the three years ended December 31, 1997 and the notes thereto, together with the auditors' report thereon;

(iv) BC TELECOM Unaudited Interim Comparative Consolidated Financial Statements for the nine months ended September 30, 1998 and September 30, 1997; and

(v) Executive Compensation excerpt from the BC TELECOM Information Circular dated February 26, 1998 for the Annual Meeting of BC TELECOM Common Shareholders on April 28, 1998.

Any statement contained in a document incorporated herein shall be deemed to be modified or superseded for the purposes of this Joint Circular to the extent that a statement contained herein modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Joint Circular.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Recent Developments

Dividends

On October 22, 1998, BC TELECOM declared its fourth quarter dividend of $0.35 per BC TELECOM Common Share, payable to holders of record on December 11, 1998. It is expected that such dividend will be paid on January 1, 1999.

Third Quarter Results

Consolidated net earnings from continuing operations of BC TELECOM for the first nine months of 1998, before the extraordinary charge effected in the first quarter of 1998 for the one-time write down of assets reflecting changes in accounting requirements, were $266.3 million or $2.12 per share compared to $211.8 million or $1.68 per share in the same period in 1997. Consolidated net earnings for the quarter ended September 30, 1998 were $88.6 million or $0.70 per share compared to $77.3 million or $0.61 per share for the same quarter in 1997. These results reflected higher earnings growth from continuing operations, after a $0.04 adjustment for lower depreciation and amortization, net of the one-time charge.

BC TELECOM's operating revenues increased $56.6 million to $808.8 million in the third quarter compared to $752.2 million in the same period in 1997 reflecting in large part, higher revenues from services provided by BC TEL and increases in revenues from BC TEL Mobility Cellular Inc. and ISM (B.C.).

BC TELECOM's third quarter operating expenses increased $10.1 million to $591.5 million compared to $581.4 million in 1997. This increase in expenses reflected higher costs associated with revenue growth at BC TEL Mobility and ISM(B.C.), as well as accounting methodology changes. The increase was partially offset by BC TEL's lower depreciation expenses and the continued decline in its core operating expenses compared to the same period last year.

BC TEL added 19,105 new customer access lines in the third quarter of 1998. BC TEL Mobility added 22,308 cellular and paging customers and as at September 30, 1998 had more than 586,000 customers.

Year 2000

The implementation of BC TELECOM's Year 2000 Program is on schedule. BC TELECOM senior management reviews progress on an ongoing basis and regular updates are provided to the Board of Directors. Thirteen of 15 million lines of computer software code relating to key business applications have been renovated and the remaining lines of code are scheduled for renovation or replacement by the end of 1998. In addition, key switches in the BC TELECOM network have been upgraded and additional network interoperability testing and verification is scheduled for completion in mid-1999.

While BC TELECOM believes it has an appropriate Year 2000 Program in place, in many cases, BC TELECOM depends on suppliers to provide information on Year 2000 compliance of their products and compliant upgrades of hardware and software. In addition, BC TELECOM and its customers could be adversely affected by the failure of other telecommunications companies' networks that interconnect with its network and by interdependencies with other utilities.

BC TELECOM is continuing to work with key suppliers to obtain compliance information and, where necessary, compliant upgrades to equipment and software. Working with the members of the Stentor Alliance, GTE, the Canadian Year 2000 Telecommunications Industry Forum and the BC Utilities Year 2000 Forum, BC TELECOM continues to manage risks arising from the interconnection of its network with the networks of other carriers, and risks arising from interdependencies with other utilities.

Total estimated direct cost for the Year 2000 Program is $40 million, down from the $44 million estimate included in BC TELECOM's 1997 annual report. To date, BC TELECOM has expended approximately $18 million.

Price Range and Trading Volumes of BC TELECOM Common Shares

The BC TELECOM Common Shares are listed on each of the TSE, ME and VSE. The following table shows the high and low prices and composite volume of trading of the BC TELECOM Common Shares on the principal exchanges, as reported by such exchanges, for the periods indicated.

	TSE			ME		
	High	Low	Volume	High	Low	Volume
1996						
Fourth Quarter	$31.10	$26.95	3,185,900	$31.20	$26.95	1,944,900
1997						
First Quarter	31.90	28.75	3,627,900	31.90	28.75	1,711,700
Second Quarter	32.50	27.85	5,752,700	32.50	27.80	1,706,500
Third Quarter	36.50	32.50	6,414,100	36.40	32.25	1,233,500
Fourth Quarter	46.50	32.05	5,436,500	46.00	32.05	1,265,500
1998						
First Quarter	55.50	40.10	5,264,100	55.25	40.10	824,700
Second Quarter	61.00	50.00	6,566,700	61.00	49.75	1,324,200
July	55.50	42.00	1,831,800	55.50	42.00	300,400
August	43.50	36.50	2,029,300	43.50	36.75	353,900
September	40.00	35.10	1,735,800	40.00	35.00	200,100
October	44.75	35.00	3,733,000	44.75	35.10	427,700
November	44.75	41.25	1,279,800	44.65	41.25	143,000
December 1 to 7	45.00	42.25	281,100	44.95	42.45	23,400

On October 16, 1998, the last full trading day prior to the public announcement of the proposed business combination, the last reported sales price on the TSE of the BC TELECOM Common Shares was $42.40 and the high and low sales prices were $42.40 and $41.50, respectively.

INFORMATION RELATING TO TELUS

Documents Incorporated by Reference

The following documents, filed by TELUS with the various securities regulatory authorities in each of the provinces and territories of Canada, are specifically incorporated by reference, attached hereto as Appendix H and form an integral part of this Joint Circular:

(i) TELUS Annual Information Form for the year ended December 31, 1997;

(ii) TELUS Management's Discussion and Analysis for the years ended December 31, 1997 and December 31, 1996;

(iii) TELUS Audited Comparative Consolidated Financial Statements for the three years ended December 31, 1997 and the notes thereto, together with auditors' report thereon;

(iv) TELUS Unaudited Interim Comparative Consolidated Financial Statements for the nine months ended September 30, 1998 and September 30, 1997, together with Management's Discussion and Analysis; and

(v) Executive Compensation and Indebtedness of Directors and Officers excerpt from the TELUS Information Circular dated March 17, 1998 for the Annual Meeting of TELUS Common Shareholders on April 30, 1998.

Any statement contained in a document incorporated herein shall be deemed to be modified or superseded for the purposes of this Joint Circular to the extent that a statement contained herein modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Joint Circular.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Recent Developments

Internal Reorganization

On October 26, 1998, the Board of Directors of TELUS approved a legal reorganization of subsidiary companies of TELUS to be effective January 1, 1999. The reorganization, which will reduce the number of corporations, is expected to streamline day to day operations and administration costs, and provide for overall efficiencies. The following chart summarizes the three operating subsidiaries that will result from the reorganization.

New Subsidiary Company (expected legal name)	Principal Subsidiary Companies before the Reorganization
TELUS Communications Inc.	TELUS Communications Inc., TELUS Edmonton Holdings Inc., TELUS Communications (Edmonton) Inc., TELUS Mobility Inc., TELUS Cable Holdings Inc.
TELUS Services Inc.	TELUS Advertising Services Inc., TELUS Advertising Services (Edmonton) Inc., TELUS Advanced Communications Inc., TELUS Information Services Inc., TELUS Management Services Inc.
TELUS Enterprises Inc.	TELUS Marketing Services Inc.

Dividends

On October 26, 1998, TELUS declared its fourth quarter dividend of $0.23 per TELUS Common Share, payable to holders of record on December 23, 1998. It is expected that such dividend will be paid on January 15, 1999.

Third Quarter Results

Net income of $52.7 million for the quarter ended September 30, 1998, was $4.8 million higher than a year ago. Earnings per common share were $0.37, up from $0.33 in the same period in 1997. These third quarter results include one-time after-tax reductions of $8.3 million or $0.06 per share due to prior year adjustments to revenues. For the first nine months of 1998, earnings per share from continuing operations were $1.31, compared to $0.82 in 1997.

Cash flow from operations was lower this quarter at $192.7 million as compared to $217.0 million for the same period a year ago — due primarily to higher cash taxes. For the first nine months of 1998, cash flow was $600.6 million as compared to $604.0 million in the same period last year.

Revenue for the third quarter was $648.1 million, up $24.7 million from a year ago. Local revenue was up by $55.1 million over a year ago. This increase came from cellular growth, higher subscriptions to Internet management services at Advanced Communications, a local rate increase, higher contribution payments from competitors, growth in network access lines, and increased use of enhanced services. Long distance revenue was lower by $29.3 million as lower prices were only partially offset by increased minutes and cellular usage. Long distance revenue this quarter was further impacted by a $13.5 million before-tax one-time reduction in revenue relating to last year.

Operations expense of $408.7 million was up $31.2 million this quarter due to growing customer bases at Mobility and Advanced Communications and increased sales costs at Canadian Mobility Products. Operations expense was also impacted by a second call centre and additional staffing occurring this quarter at Marketing Services. Depreciation expense was lower by $14.2 million primarily due to the $443 million write down of fixed assets at the end of 1997.

Year 2000

Readiness for the Year 2000 has been a top priority at TELUS as TELUS products and services are provided on complex computerized networks that interconnect with numerous internal systems and with other Canadian and international telecommunications carriers. Since October 1996, the TELUS Year 2000 Program Management Office has put more than 20 project teams in place to make TELUS networks, systems, products and services Year 2000 ready. For example, the implementation of the SAP software system in January 1998 replaced approximately 80 internal administrative systems. This was preceded by the replacement of over 6,000 personal computers with Year 2000 ready hardware and software. The goal is to have all crucial systems necessary to run the business modified and tested by December 31, 1998. This involves approximately 150 people who work through a four-phase process. Inventory and assessment phases are on schedule and most conversion projects are well underway or near completion. Virtually all general infrastructure and buildings are now Year 2000 ready, with only a few minor non-compliant items to be upgraded before year-end 1998. Approximately two-thirds of the non-compliant equipment in the TELUS voice and data networks has been upgraded or replaced, and most of the remainder is to be completed by December 31, 1998. Over eighty percent of the information technology systems have been converted. Certification and interoperability testing for Year 2000 readiness will take place in the first half of 1999.

Due to the interconnection of TELUS networks to external networks, TELUS is also working with the Stentor Alliance teams and the Canadian Year 2000 Telecommunications Industry Forum. Preparations for interoperability testing of the national network services are well underway with the Stentor Alliance. TELUS is developing its own internal contingency plans for service restoration and business recovery in the event TELUS experiences unforeseen problems in its internal environment or external networks to which it connects.

TELUS expects to spend approximately $50 million of operating expenses during the life of the Year 2000 compliance project, of which approximately one-half has been spent to date. In addition, network equipment, computers and software are continually being upgraded or replaced as part of TELUS ongoing capital program, which contributes to Year 2000 readiness. To ensure Year 2000 readiness, monthly progress meetings are held at both the management and operational levels, TELUS executives review the status on a regular basis and briefings are provided to the Board of Directors at each Board meeting.

Price Range and Trading Volumes of TELUS Common Shares

The TELUS Common Shares are listed on each of the TSE, ME and ASE. The following table shows the high and low prices and composite volume of trading of the TELUS Common Shares on the principal exchanges, as reported by such exchanges, for the periods indicated.

	TSE			ME		
	High	Low	Volume	High	Low	Volume
1996						
Fourth Quarter	$22.10	$18.70	23,052,400	$22.00	$18.70	5,972,272
1997						
First Quarter	21.70	19.10	18,648,900	21.70	19.10	6,564,954
Second Quarter	25.75	19.40	26,595,400	25.75	19.40	5,551,113
Third Quarter	30.20	25.65	23,448,200	30.20	25.50	7,586,286
Fourth Quarter	34.00	25.50	23,614,100	34.00	25.50	5,276,673
1998						
First Quarter	45.30	31.00	24,647,600	45.45	31.00	4,997,933
Second Quarter	43.75	35.10	27,881,000	43.80	35.15	8,380,063
July	38.10	34.50	10,737,600	38.10	34.50	1,799,078
August	35.00	30.00	4,214,900	35.00	30.10	1,521,933
September	32.00	29.75	4,139,600	32.00	29.75	1,254,816
October	34.75	28.60	5,081,700	34.75	28.75	1,521,744
November	35.15	31.55	2,922,100	35.25	31.55	705,963
December 1 to 7	34.60	32.75	603,875	34.65	32.75	324,838

On October 16, 1998, the last full trading day prior to the public announcement of the proposed business combination, the last reported sales price on the TSE of the TELUS Common Shares was $32.50 and the high and low sales prices were $32.55 and $32.20, respectively.

INTEREST OF MANAGEMENT AND OTHERS IN THE ARRANGEMENT

Certain executive officers of BC TELECOM and TELUS have contracts which provide for severance payments in the event of the termination of their employment within a specified period of time following a change of control of their respective corporations. See Appendix G — BC TELECOM Inc. Executive Compensation excerpt and Appendix H — TELUS Corporation Executive Compensation excerpt. As the consummation of the Arrangement could be considered a change of control under those contracts, certain severance payments may be triggered should any such executive officers be terminated within the specified time other than for just cause or by reason of death, disability or, in the case of BC TELECOM only, retirement. In addition, it is anticipated that, as of the Effective Date, BC TELECOM will terminate its Directors Share Compensation Plan, Executive Medium Term Variable Reward Plan and Executives' Share Compensation Plan and TELUS will terminate its Directors Share Compensation Plan and Performance Share Unit Plan and, in each case, monetize existing benefits. Upon termination, payments would be made to certain directors and officers of BC TELECOM and to certain officers of TELUS. The amount of such payments has not yet been quantified.

GTE beneficially owns approximately 50.8% of the BC TELECOM Common Shares and will, after consummation of the Arrangement, beneficially own approximately 26.7% of the BCT.TELUS Common Shares and 26.7% of the BCT.TELUS Non-Voting Shares. If the Arrangement is completed, BCT.TELUS will become a party to the Intellectual Property Agreement and the Long-Term Relationship Agreement with GTE, which agreements have been described in detail under "Details of the Arrangement and Related Transactions — Relationship between GTE and BCT.TELUS After the Arrangement".

LEGAL MATTERS

Farris, Vaughan, Wills & Murphy, Canadian legal counsel to BC TELECOM, has advised BC TELECOM with respect to certain legal matters disclosed in this Joint Circular. Thorsteinssons, special tax counsel to BC TELECOM, will pass upon certain Canadian tax considerations in connection with the Arrangement on behalf of BC TELECOM.

Bennett Jones, Canadian legal counsel to TELUS, has advised TELUS with respect to certain legal matters disclosed in this Joint Circular and will pass upon certain Canadian tax considerations in connection with the Arrangement. Mr. Walter B. O'Donoghue, currently a director of TELUS and one of the proposed directors of BCT.TELUS, is a partner of Bennett Jones.

Odell & Partners, United States legal counsel to BC TELECOM, has advised BC TELECOM with respect to certain legal matters disclosed in this Joint Circular and will pass upon certain United States tax considerations in connection with the Arrangement.

Cleary, Gottlieb, Steen & Hamilton, United States legal counsel to TELUS, has advised TELUS with respect to certain legal matters disclosed in this Joint Circular and will pass upon certain United States tax considerations in connection with the Arrangement.

Partners and associates of Farris, Vaughan, Wills & Murphy, Bennett Jones, Thorsteinssons, Odell & Partners and Cleary, Gottlieb, Steen & Hamilton own beneficially, directly or indirectly, less than 1% of BC TELECOM Common Shares and TELUS Common Shares.

BC TELECOM CERTIFICATE

The contents of this Joint Circular and the sending thereof to the BC TELECOM Shareholders has been approved by the Board of Directors of BC TELECOM.

As it relates to BC TELECOM and BCT.TELUS, the foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. All information in this Joint Circular relating to BCT.TELUS has been supplied by both BC TELECOM and TELUS. TELUS has provided the information contained in this Joint Circular concerning TELUS, its subsidiaries and the companies or partnerships in which it has equity investments, including the information incorporated by reference, its financial information and financial statements. BC TELECOM assumes no responsibility for the accuracy or completeness of information concerning TELUS, nor for any omission on the part of TELUS to disclose facts or events which may affect the accuracy of any such information.

Dated at Burnaby, British Columbia, Canada this 8th day of December, 1998.

By Order of the Board of Directors

(Signed) DONALD A. CALDER
President and Chief Executive Officer

(Signed) C. KENNETH CRUMP
Senior Vice President,
Chief Financial Officer and Treasurer

TELUS CERTIFICATE

The contents of this Joint Circular and the sending thereof to the TELUS Shareholders has been approved by the Board of Directors of TELUS.

As it relates to TELUS and BCT.TELUS, the foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. All information in this Joint Circular relating to BCT.TELUS has been supplied by both BC TELECOM and TELUS. BC TELECOM has provided the information contained in this Joint Circular concerning BC TELECOM, its subsidiaries and the companies or partnerships in which it has equity investments, including the information incorporated by reference, its financial information and financial statements. TELUS assumes no responsibility for the accuracy or completeness of information concerning BC TELECOM, nor for any omission on the part of BC TELECOM to disclose facts or events which may affect the accuracy of any such information.

Dated at Edmonton, Alberta, Canada this 8th day of December, 1998.

By Order of the Board of Directors

(Signed) GEORGE K. PETTY
President and Chief Executive Officer

(Signed) GARY W. GOERTZ
Executive Vice-President,
Finance and Chief Financial Officer

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SPECIAL RESOLUTIONS

BC TELECOM INC.

SPECIAL RESOLUTION

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement pursuant to section 192 of the *Canada Business Corporations Act* (the "Act"), involving BC TELECOM Inc. ("BC TELECOM"), its holders of common shares and holders of options under the BC TELECOM Share Option Plan and BC TELECOM Long-Term Incentive Share Option Plan (the "BC TELECOM Shareholders"), TELUS Corporation ("TELUS"), and its holders of common shares and holders of options under the TELUS Stock Option Plan and TELUS Directors Stock Option Plan, BCT.TELUS Communications Inc. ("BCT.TELUS") and 3481646 Canada Inc. (the "Arrangement"), all as more particularly set forth in the plan of arrangement (the "Plan of Arrangement") attached as Schedule A to the Amended and Restated Arrangement Agreement among BC TELECOM, TELUS and BCT.TELUS effective as of October 27, 1998, as amended (the "Arrangement Agreement") is hereby authorized and approved;

2. The entering into by BC TELECOM of the Arrangement Agreement which is attached as Appendix B to the joint management proxy circular of BC TELECOM and TELUS dated December 8, 1998 (the "Joint Circular") accompanying the notice of this meeting, is hereby ratified, confirmed and approved;

3. Notwithstanding the approval of this Special Resolution or the approval of the Supreme Court of British Columbia of the Arrangement, the board of directors of BC TELECOM (i) is hereby authorized in its sole discretion, without further notice to or approval of the BC TELECOM Shareholders but subject to the terms of the Arrangement Agreement, to amend or terminate the Arrangement Agreement at any time prior to the Arrangement becoming effective; and (ii) is hereby authorized, in its sole discretion, without further notice to or approval of the BC TELECOM Shareholders, to amend the Plan of Arrangement to the extent permitted thereby and to not proceed with the Arrangement at any time prior to the Arrangement becoming effective;

4. Any one director or officer of BC TELECOM is authorized to sign Articles of Arrangement on behalf of BC TELECOM and file such Articles of Arrangement with the Director under the Act in accordance with the terms of the Plan of Arrangement and Arrangement Agreement; and

5. Any one director or officer of BC TELECOM is hereby authorized and directed for and in the name of and on behalf of BC TELECOM to do all acts and things and to execute, whether under the corporate seal of BC TELECOM or otherwise, and to deliver or cause to be delivered, all documents and instruments and to do all such acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this Special Resolution.

TELUS CORPORATION

SPECIAL RESOLUTION

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement pursuant to section 186 of the *Business Corporations Act* (Alberta) (the "Act"), involving TELUS Corporation ("TELUS"), its holders of common shares and holders of options under the TELUS Stock Option Plan and TELUS Directors Stock Option Plan (the "TELUS Shareholders"), BC TELECOM Inc. ("BC TELECOM") its holders of common shares and holders of options under the BC TELECOM Share Option Plan and BC TELECOM Long-Term Incentive Share Option Plan, BCT.TELUS Communications Inc. ("BCT.TELUS") and 3481646 Canada Inc. (the "Arrangement"), all as more particularly set forth in the plan of arrangement (the "Plan of Arrangement") attached as Schedule "A" to the Amended and Restated Arrangement Agreement among TELUS, BC TELECOM and BCT.TELUS effective as of October 27, 1998, as amended (the "Arrangement Agreement") is hereby authorized and approved;

2. The entering into by TELUS of the Arrangement Agreement which is attached as Appendix B to the joint management proxy circular of TELUS and BC TELECOM dated December 8, 1998 (the "Joint Circular") accompanying the notice of this meeting, is hereby ratified, confirmed and approved;

3. Notwithstanding the approval of this Special Resolution or the approval of the Court of Queen's Bench of Alberta of the Arrangement, the board of directors of TELUS (i) is hereby authorized in its sole discretion, without further notice to or approval of the TELUS Shareholders but subject to the terms of the Arrangement Agreement, to amend or terminate the Arrangement Agreement at any time prior to the Arrangement becoming effective; and (ii) is hereby authorized, in its sole discretion, without further notice to or approval of the TELUS Shareholders, to amend the Plan of Arrangement to the extent permitted thereby and to not proceed with the Arrangement at any time prior to the Arrangement becoming effective;

4. Any one director or officer of TELUS is authorized to sign Articles of Arrangement on behalf of TELUS and file such Articles of Arrangement with the Registrar of Corporations under the Act in accordance with the terms of the Plan of Arrangement and Arrangement Agreement; and

5. Any one director or officer of TELUS is hereby authorized and directed for and in the name of and on behalf of TELUS to do all acts and things and to execute, whether under the corporate seal of TELUS or otherwise, and to deliver or cause to be delivered, all documents and instruments and to do all such acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this Special Resolution.

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ARRANGEMENT AGREEMENT

APPENDIX B — ARRANGEMENT AGREEMENT

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AMENDED AND RESTATED

ARRANGEMENT AGREEMENT

BETWEEN

BC TELECOM INC.

and

TELUS CORPORATION

and

BCT.TELUS COMMUNICATIONS INC.

October 27, 1998

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AMENDED AND RESTATED ARRANGEMENT AGREEMENT

THIS AMENDED AND RESTATED ARRANGEMENT AGREEMENT as amended and restated the 27th day of October, 1998,

BETWEEN:

BC TELECOM INC., a body corporate incorporated under the laws of Canada with its head office in the City of Burnaby, in the Province of British Columbia (hereinafter called "**BC TELECOM**")

AND

TELUS CORPORATION, a body corporate incorporated under the laws of the Province of Alberta with its head office in the City of Edmonton, in the Province of Alberta (hereinafter called "**TELUS**")

AND

BCT.TELUS COMMUNICATIONS INC., a body corporate incorporated under the laws of British Columbia with its registered office in the City of Vancouver, in the Province of British Columbia (hereinafter called "**MergeCo**")

WHEREAS BC TELECOM and TELUS wish to propose an arrangement involving TELUS, its shareholders and BC TELECOM and its shareholders;

AND WHEREAS the parties hereto intend to carry out the transactions contemplated herein by way of an arrangement under the provisions of the *Canada Business Corporations Act* and the *Business Corporations Act* (Alberta);

AND WHEREAS the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto do hereby covenant and agree as follows:

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), S.A. 1981, c. B-15, as amended;

"**AcquisitionCo**" means 3481646 Canada Inc., a body corporate incorporated under the laws of Canada, and a wholly-owned subsidiary of MergeCo;

"**Acquisition Proposal**" means any merger, amalgamation, consolidation, business combination, strategic alliance, recapitalization, take-over bid, sale of material assets, any material sale of treasury shares or rights or interests therein or thereto or similar transactions involving BC TELECOM or TELUS or any Material Subsidiaries of BC TELECOM or TELUS, or a proposal to do so, excluding the Arrangement;

"**Ad Hoc Strategic Committee**" means the committee established as set forth in Schedule D;

"**Alberta Court**" means the Court of Queen's Bench of Alberta;

"**Anglo-Canadian**" means Anglo-Canadian Telephone Company, a corporation incorporated under the laws of Quebec;

"**Arrangement**" means the arrangement in respect of BC TELECOM under the provisions of Section 192 of the CBCA and the arrangement in respect of TELUS under the provisions of Section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement in respect of BC TELECOM, required by the CBCA to be sent to the Director and in respect of TELUS required by the ABCA to be sent to the Registrar, in each case after the Final Order is made;

"**BCCA**" means the *Company Act*, R.S.B.C. 1996, C-62, as amended;

"**BC Court**" means the Supreme Court of British Columbia;

"**BC Registrar**" means the Registrar of Companies under the BCCA;

"**BC TELECOM Arrangement Resolution**" means the special resolution of BC TELECOM Shareholders approving the Arrangement;

"**BC TELECOM Common Shareholders**" mean the holders of BC TELECOM Common Shares;

"**BC TELECOM Common Shares**" mean common shares in the capital of BC TELECOM;

"**BC TELECOM Meeting**" means such meetings of BC TELECOM Shareholders as are required to be held in accordance with the Interim Orders;

"**BC TELECOM Option Plans**" means the BC TELECOM Share Option Plan and the BC TELECOM Long-Term Incentive Share Option Plan;

"**BC TELECOM Optionholders**" means the holders of options under the BC TELECOM Option Plans;

"**BC TELECOM Shareholders**" means the BC TELECOM Common Shareholders and the BC TELECOM Optionholders;

"**BC TELECOM Shares**" mean the BC TELECOM Common Shares and the options under the BC TELECOM Option Plans;

"**business day**" means any day, other than Saturday, Sunday and a statutory holiday in the Province of British Columbia or Alberta;

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

"**Combination**" means the Arrangement and the other actions which are contemplated hereby or which may be entered into in connection herewith;

"**Competition Act**" means the *Competition Act*, R.S.C. 1985, C-34, as amended;

"**Courts**" mean the BC Court and the Alberta Court;

"**Director**" means the Director appointed pursuant to Section 260 of the CBCA;

"**Effective Date**" means the date upon which the Arrangement becomes effective as provided in the Plan of Arrangement;

"**Effective Time**" means 11:59 p.m. (Pacific Standard Time) on the Effective Date;

"**Encumbrance**" includes, without limitation, any mortgage, pledge, assignment, charge, lien, security interest, adverse interest in property, other third party interest or encumbrance of any kind whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

"**Environmental Laws**" means all applicable Laws, including applicable common laws, relating to the protection of the environment and employee and public health and safety;

"**Final Orders**" means the orders of the Alberta Court and the BC Court approving the Arrangement, as such orders may be amended at any time prior to the Effective Date or, if appealed, then unless such appeal is withdrawn or denied, as affirmed and "**Final Order**" means either of such orders, as the case may be;

"**GTE**" means GTE Corporation, a corporation incorporated under the laws of New York;

"**Governance Arrangements**" means the arrangements set forth in Schedule D hereto;

"**Governmental Entity**" means any (a) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) subdivision, agent, commission, board or authority of any of the foregoing or (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

"**Heads of Agreement**" means the heads of agreement previously executed and delivered by GTE and BC TELECOM and initialed for identification by TELUS which describes the terms to be included in the Technology Agreement;

"**Hazardous Substance**" means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Law;

"**Interim Orders**" mean the orders of the Alberta Court and the BC Court, as the same may be amended, containing declarations and directions in respect of BC TELECOM under the CBCA and in respect of TELUS under the ABCA, in each case, with respect to the Arrangement and "**Interim Order**" means either of such orders, as the case may be;

"**Joint Circular**" means the joint management information circular to be prepared and sent to the BC TELECOM Shareholders and TELUS Shareholders in connection with the BC TELECOM Meeting and the TELUS Meeting and in accordance with the Interim Orders;

"**Laws**" means all laws, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements of any Governmental Entity;

"**Long-Term Relationship Agreement**" means the agreement to be entered into on the Effective Date between MergeCo, GTE and Anglo-Canadian in the form of agreement attached as a schedule to the Voting Agreement;

"**material adverse change**" or "**material adverse effect**" means, when used in connection with BC TELECOM or TELUS, any change, effect, event, occurrence or change in state of facts that is, or would reasonably be expected to be, material and adverse to the business, operations or financial condition of such Party and its Subsidiaries taken as a whole other than any change, effect, event, occurrence or change in state of facts relating to (i) the Canadian, Alberta or British Columbia economies or securities markets in general, (ii) any change in the trading price of the BC TELECOM Common Shares or TELUS Common Shares, (iii) the telecommunications industry in general, and not specifically relating to BC TELECOM or TELUS or their respective Subsidiaries, respectively, (iv) generally accepted accounting principles, (v) the failure to consummate the agreement and plan of merger among Bell Atlantic Corporation, Beta Gamma Corporation and GTE, (vi) actions by the members of Stentor arising from or relating to the dissolution of Stentor or any related affiliations; (vii) the contractual relationship between the members of Stentor and MCI Communications Inc.; or (viii) arising from the Arrangement and all transactions related thereto or contemplated by this Agreement.

"**Material Subsidiary**" in respect of BC TELECOM means BC TEL and BC TEL Mobility Cellular Inc. and in respect of TELUS means TELUS Communications Inc., TELUS Mobility Inc. and TELUS Communications (Edmonton) Inc.;

"**MergeCo Common Shares**" means the common shares in the capital of MergeCo;

"**MergeCo Memorandum and Articles**" means the memorandum and articles of MergeCo, at the Effective Time, such memorandum and articles to be in the form of Schedule E;

"**MergeCo Non-Voting Shares**" means the non-voting shares in the capital of MergeCo;

"**Non-Disclosure Agreement**" means the letter agreement dated June 30, 1998 between BC TELECOM and TELUS as extended and amended from time to time;

"**Option Agreements**" means the option agreements entered into between TELUS and BC TELECOM pursuant to Section 8.5;

"**Parties**" means BC TELECOM and TELUS; and "**Party**" means either one of them;

"**Plan of Arrangement**" means the plan of arrangement substantially in the form and content annexed as Schedule A hereto and any amendment or variation thereto made in accordance with Section 6.3 of the Plan of Arrangement or Section 7.1 hereof;

"**Registrar**" means the Registrar of Corporations appointed pursuant to Section 253 of the ABCA;

"**Returns**" means all reports, information statements and returns relating to, or required to be filed in connection with, any Taxes;

"**Subsidiary**" means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to a Subsidiary;

"**Superior Proposal**" shall have the meaning as set forth in Section 5.5(a);

"**Tax Act**" means the *Income Tax Act* (Canada);

"**Taxes**" means all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any Governmental Entity, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), capital taxes, payroll and employee withholding taxes, unemployment insurance, social insurance taxes (including Canada Pension Plan payments), sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers' compensation, pension assessment and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which one of the parties to this Agreement or any of its Subsidiaries is required to pay, withhold or collect;

"**Technology Agreement**" means the intellectual property and branding agreement to be entered into on or before the Effective Date between MergeCo and GTE incorporating the terms described in the Heads of Agreement;

"**TELUS Arrangement Resolution**" means the special resolution of TELUS Shareholders approving the Arrangement;

"**TELUS Common Shareholders**" mean the holders of TELUS Common Shares;

"**TELUS Common Shares**" mean the common shares in the capital of TELUS;

"**TELUS Meeting**" means such meetings of TELUS Shareholders as are required to be held in accordance with the Interim Order.

"**TELUS Option Plans**" mean the TELUS Stock Option Plan and the TELUS Directors Stock Option Plan;

"**TELUS Optionholders**" mean the holders of options under the TELUS Option Plans;

"**TELUS Shareholders**" mean the TELUS Common Shareholders and the TELUS Optionholders;

"**TELUS Shares**" mean the TELUS Common Shares and the options under the TELUS Option Plans;

"**Voting Agreement**" means the agreement of even date herewith among GTE, Anglo-Canadian, BC TELECOM, MergeCo and TELUS which provides for, *inter alia*, certain matters relating to the BC TELECOM Meeting and the TELUS Common Shares.

1.2 Interpretation Not Affected by Headings

The division of this Agreement into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

1.3 Article References

Unless the contrary intention appears, references in this Agreement to an Article, Section, subsection, paragraph or Schedule by number or letter or both refer to the Article, Section, subsection, paragraph or Schedule, respectively, bearing that designation in this Agreement.

1.4 Number and Gender

In this Agreement, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof).

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the Parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.6 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

1.7 Schedules

Schedules A, B, C, D and E annexed to this Agreement, being the Plan of Arrangement, the representations and warranties of BC TELECOM and TELUS, the Governance Arrangements and the MergeCo Memorandum and Articles respectively, are incorporated by reference into this Agreement and form a part hereof.

1.8 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under Canadian generally accepted accounting principles and all determinations of an accounting nature required to be made shall be made in a manner consistent with Canadian generally accepted accounting principles.

1.9 Material

The terms "material" and "materially" shall, when used in this Agreement, be construed, measured or assessed on the basis of whether the matter would materially affect a Party and its Subsidiaries taken as a whole or would significantly impede the ability to complete the Arrangement in accordance with the Agreement.

1.10 Disclosure

Where in this Agreement reference is made to disclosure in writing, such disclosure shall be made in writing in the memorandums, dated the date hereof, exchanged by the Parties and signed by an officer of the Party and delivered to the other Party hereto prior to the execution of this Agreement. Such disclosure memorandums make reference to the applicable Sections and paragraphs of this Agreement. Notwithstanding the foregoing, disclosure in relation to one Section or paragraph shall constitute disclosure for other applicable Sections and paragraphs.

1.11 General — Representations and Warranties

Representations, warranties and covenants contained herein and references herein to "as of the date hereof" and similar expressions shall be considered to be made, agreed to or be references made, as the case may be, as of October 19, 1998 and as of October 27, 1998.

ARTICLE 2

THE ARRANGEMENT

2.1 Organization and Activities of MergeCo

Prior to the Effective Time and except as contemplated by this Agreement or the Arrangement, MergeCo shall have three MergeCo Common Shares issued and outstanding, one of which shall be held by BC TELECOM and two of which shall be held by TELUS. The constating documents of MergeCo at the Effective Time shall be the MergeCo Memorandum and Articles. From the date hereof to the Effective Time, MergeCo shall not carry on any business or conduct any activities except as may be necessary to fully perform and carry out the terms and intent hereof or as consented to in writing by BC TELECOM and TELUS.

2.2 Arrangement

As soon as reasonably practicable, BC TELECOM shall apply to the BC Court and TELUS shall apply to the Alberta Court pursuant to Section 192(3) of the CBCA and Section 186 of the ABCA, respectively, for an order approving the Arrangement and in connection with such application, each of BC TELECOM and TELUS shall:

(a) file, proceed with and diligently prosecute an application for an Interim Order providing for, among other things, the calling and holding of the BC TELECOM Meeting and the TELUS Meeting, which shall be held on the dates agreed to by BC TELECOM and TELUS, for the purpose of considering and, if deemed advisable, approving the Arrangement; and

(b) subject to obtaining the approvals as contemplated in the Interim Orders and as may be directed by the BC Court and the Alberta Court in the Interim Orders, take all steps necessary or desirable to submit the Arrangement to the BC Court and the Alberta Court and apply for the Final Orders;

and, subject to the fulfilment or waiver of the conditions set forth in Article 6, BC TELECOM shall file with the Director and TELUS shall file with the Registrar, Articles of Arrangement and such other documents as may be required to give effect to the Arrangement.

2.3 Effective Date

The transactions contemplated by this Agreement shall become effective at the Effective Time on the Effective Date. Any reference to "Effective Date" in this Agreement shall be a reference to the "Effective Time on the "Effective Date" except when the context requires otherwise.

2.4 TELUS Approval

(a) TELUS represents as of the date hereof that its Board of Directors, after considering the Combination, has determined unanimously that:

(i) the Combination is fair to TELUS Common Shareholders and is in the best interests of TELUS; and

(ii) it will recommend in the Joint Proxy Circular that TELUS Shareholders vote in favour of the Arrangement and the TELUS Arrangement Resolution;

(b) TELUS represents as of the date hereof that its Board of Directors has received a written opinion from each of RBC Dominion Securities Inc. and Salomon Smith Barney, financial advisors to TELUS, that, in the case of RBC Dominion Securities Inc., the Transaction (as defined in the RBC Dominion Securities Inc. opinion) is fair from a financial point of view to the TELUS Common Shareholders and,

in the case of Salomon Smith Barney, the Exchange Ratio (as defined in the Salomon Smith Barney opinion) is fair to TELUS Common Shareholders from a financial point of view, subject, in each case, to the assumptions and limitations described in such opinions; and

(c) TELUS represents as of the date hereof that its directors have advised it that they intend to vote TELUS Common Shares held by them in favour of the Arrangement and the TELUS Arrangement Resolution and will, accordingly, so represent in the Joint Proxy Circular.

2.5 BC TELECOM Approval

(a) BC TELECOM represents as of the date hereof that its special committee of independent directors has unanimously recommended that the Board of Directors of BC TELECOM:

(i) authorize the transactions contemplated by this Agreement, including the Arrangement, the Heads of Agreement, the Voting Agreement, the Long-Term Relationship Agreement and the Option Agreements and recommend that the BC TELECOM Shareholders vote in favour of the BC TELECOM Arrangement Resolution; and

(ii) approve the execution and delivery by BC TELECOM of this Agreement, the Voting Agreement, the Heads of Agreement and the Option Agreements;

(b) BC TELECOM represents as of the date hereof that its Board of Directors (other than those directors who declared their interest in the Technology Agreement and abstained from voting to approve the Heads of Agreement) has determined unanimously that:

(i) the Combination is fair to its shareholders as a whole and to the minority shareholders of BC TELECOM and is in the best interests of BC TELECOM; and

(ii) it will recommend in the Joint Proxy Circular that BC TELECOM Shareholders vote in favour of the Arrangement and the BC TELECOM Arrangement Resolution;

(c) BC TELECOM represents as of the date hereof that its Board of Directors has received a written opinion from each of TD Securities Inc. and J. P. Morgan & Co., Inc., financial advisors to BC TELECOM, that, in the case of TD Securities Inc., the Transaction (as defined in the TD Securities Inc. opinion) is fair from a financial point of view to the BC TELECOM Common Shareholders and, in the case of J. P. Morgan & Co., Inc., the consideration to be provided by BC TELECOM in connection with the Arrangement is fair, from a financial point of view, to the BC TELECOM Common Shareholders and its special committee of independent directors has received a written opinion from CIBC Wood Gundy Securities Inc., the financial advisor to the special committee, that, as at the date hereof, the Heads of Agreement is fair from a financial point of view to the minority shareholders of BC TELECOM and that the Share Exchange Ratio and resulting Pro Forma TELECOM Ownership Percentage (both as defined in the opinion of CIBC Wood Gundy Securities Inc.) are fair from a financial point of view to BC TELECOM Shareholders, including the minority shareholders of BC TELECOM, subject, in each case to the assumptions and limitations described in such opinions; and

(d) BC TELECOM represents as of the date hereof, that its directors have advised it that they intend to vote BC TELECOM Common Shares held by them in favour of the Arrangement and the BC TELECOM Arrangement Resolution and will, accordingly, so represent in the Joint Proxy Circular.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF BC TELECOM

3.1 Representations and Warranties

BC TELECOM hereby makes to TELUS the representations and warranties as set forth in Schedule B to this Agreement and acknowledges that TELUS is relying upon those representations and warranties in connection with entering into this Agreement.

3.2 Investigation

Any investigation by TELUS and its advisors shall not mitigate, diminish or affect the representations and warranties of BC TELECOM pursuant to this Agreement.

3.3 Survival of Representations and Warranties

The representations and warranties of BC TELECOM contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished on the Effective Date at the Effective Time.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF TELUS

4.1 Representations and Warranties

TELUS hereby makes to BC TELECOM the representations and warranties as set forth in Schedule C to this Agreement and acknowledges that BC TELECOM is relying upon those representations and warranties in connection with entering into this Agreement.

4.2 Investigation

Any investigation by BC TELECOM and its advisors shall not mitigate, diminish or affect the representations and warranties of TELUS pursuant to this Agreement.

4.3 Survival of Representations and Warranties

The representations and warranties of TELUS contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished on the Effective Date at the Effective Time.

4.4 Representation and Warranty of MergeCo

MergeCo hereby represents and warrants to each of BC TELECOM and TELUS and acknowledges that each of BC TELECOM and TELUS is relying thereon that MergeCo has never carried on any business or conducted any activities other than as necessary to perform and carry out the terms and intent hereof.

ARTICLE 5

COVENANTS

5.1 Pooling of Interests Accounting

BC TELECOM and TELUS shall each use all reasonable commercial efforts to cause the business combination contemplated by the Arrangement to be effected in such a manner as to ensure that such business combination will be accounted for as of the Effective Date as a pooling of interests under generally accepted accounting principles and will use all reasonable commercial efforts to refrain from taking any actions which will prevent such accounting treatment. Each of BC TELECOM and TELUS represents as of the date hereof, that their respective Boards of Directors have received the written opinion of its auditors on or before the date hereof that pooling of interests is the appropriate method to account for the business combination to be effected by the Arrangement.

5.2 Corporate Governance

The parties agree that the Governance Arrangements respecting BC TELECOM, TELUS and MergeCo shall be as set out in, or determined in the manner set out in, Schedule D.

5.3 Consultation

BC TELECOM and TELUS agree to consult with each other in issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement and in making any filing with any governmental or regulatory agency or with any stock exchange with respect thereto. Each Party shall use all reasonable commercial efforts to enable the other Party to review and comment on all such press releases prior to the release thereof and shall enable the other Party to review and comment on such filings prior to the filing thereof. The Parties agree to issue jointly a press release with respect to this Agreement as soon as practicable, in a form acceptable to both Parties and each of BC TELECOM and TELUS agrees to file a copy of this Agreement with applicable regulatory authorities.

5.4 Mutual Covenants

Each of the Parties covenants and agrees that, except as contemplated in this Agreement, the Arrangement, the Option Agreements, or the Voting Agreement until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier:

(a) except as previously disclosed in writing to the other Party hereto, it shall, and shall cause each of its Subsidiaries to, conduct its and their respective businesses only in, and not take any action except in, the usual, ordinary and regular course of business and consistent with past practice;

(b) except as previously disclosed in writing to the other Party hereto, it shall not, without the prior written consent of the other Party hereto, which shall not be unreasonably withheld, directly or indirectly including through a Subsidiary, do or permit to occur any of the following:

(i) issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of, encumber;

(1) any shares of, or any options, warrants, calls, conversion privileges or rights of any kind to acquire any shares of it or any of its Material Subsidiaries, except pursuant to the exercise of stock options currently outstanding or under existing share issuance plans which have been disclosed to the other Party to this Agreement; or stock options issued consistent with past practices and share issuances in respect thereof; or

(2) except in the usual, ordinary and regular course of business and consistent with past practice, any assets of it or any of its Material Subsidiaries;

(ii) amend or propose to amend its articles or by-laws or those of any of its Material Subsidiaries;

(iii) split, combine or reclassify any of its outstanding shares, or declare, set aside or pay any dividend or other distribution payable in cash, stock, property or otherwise with respect to its shares (other than regular quarterly dividends in respect of its common shares, in amounts consistent with past practice, and dividends provided for pursuant to the provisions of its preferred shares);

(iv) redeem, purchase or offer to purchase (or permit any of its Material Subsidiaries to redeem, purchase or offer to purchase) any shares or other securities of it or any of its Material Subsidiaries, unless otherwise required by the terms of such securities;

(v) reorganize, amalgamate or merge it or any of its Material Subsidiaries with any other person, corporation, partnership or other business organization whatsoever;

(vi) except in the usual, ordinary and regular course of business and consistent with past practice, acquire, agree to acquire, dispose of or agree to dispose of any person, corporation, partnership, joint venture or other business organization or division or acquire, agree to acquire, dispose of or agree to dispose of any assets, which, in each case, are individually or in the aggregate, material;

(vii) except in the usual, ordinary and regular course of business and consistent with past practice: (A) satisfy or settle any claims or liabilities, except such as have been reserved against in its financial statements delivered to the other Party to this Agreement, which are individually or in the aggregate, material; (B) relinquish any contractual rights, which are individually or in the

aggregate, material, except with the prior written consent of the other Party and except for those contractual rights which are contained in contracts in which both BC TELECOM or TELUS or their respective Subsidiaries are a party; or (C) enter into any interest rate, currency or commodity swaps, hedges or other similar financial instruments; or

(viii) except in the usual, ordinary and regular course of business and consistent with past practice, and except for the purpose of the renewal of or the replacement of existing credit facilities where such renewal or replacement facilities are for a principal amount approximately the same as the principal amount of the facilities renewed or replaced, incur or commit to provide guarantees, incur any indebtedness for borrowed money or issue any amount of debt securities, which are individually or in the aggregate, material;

(c) without the prior written consent of the other Party hereto, which shall not be unreasonably withheld, it shall not, and shall cause each of its Subsidiaries to not:

(i) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, enter into or modify any employment, severance, collective bargaining or similar agreements, policies or arrangements with, or grant any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay to, or make any loan to, any officers or directors of it or any Subsidiary;

(ii) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, in the case of employees of it or any of its Subsidiaries who are not officers or directors, take any action with respect to the entering into or modifying of any employment, severance, collective bargaining or similar agreements, policies or arrangements or with respect to the grant of any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay or any other form of compensation or profit sharing or with respect to any increase of benefits payable; or

(iii) except as set forth in the Parties' respective capital budgets approved to the date hereof, incur or commit to capital expenditures prior to the Effective Date individually exceeding $5 million or in the aggregate exceeding $20 million;

(d) it shall use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;

(e) it shall:

(i) use its reasonable commercial efforts, and cause each of its Subsidiaries to use its reasonable commercial efforts, to preserve intact their respective business organizations and goodwill, to keep available the services of its officers and employees as a group and to maintain satisfactory relationships with suppliers, agents, distributors, customers and others having business relationships with it or its Subsidiaries;

(ii) not take any action, or permit any of its Subsidiaries to take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to the Effective Date if then made or

interfere with or be inconsistent with the ability to account for the transactions hereunder on the basis of pooling of interest accounting under generally accepted accounting principles or for the auditors to concur that such accounting is appropriate; and

(iii) promptly notify the other Party to this Agreement of any material adverse change, or any change which could reasonably be expected to become a material adverse change, in respect of its or any of its Material Subsidiaries' businesses or in the operation of its or any of its Material Subsidiaries' businesses or in the operation of its or any of its Material Subsidiaries' properties, and of any material Governmental Entity or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated);

(f) it shall not settle or compromise any claim brought by any present, former or purported holder of any of its securities in connection with the transactions contemplated by this Agreement or the Arrangement prior to the Effective Date without the prior written consent, not to be unreasonably withheld, of the other Party to this Agreement;

(g) except in the usual, ordinary and regular course of business and consistent with past practice, or except as previously disclosed in writing to the other Party hereto or as required by applicable law, it and its Subsidiaries shall not enter into or modify in any material respect any contract, agreement, commitment or arrangement which new contract or series of related new contracts or modification to an existing contract or series of related existing contracts would be material to a Party hereto or which would have a material adverse effect on a Party hereto;

(h) it shall use all commercially reasonable efforts to satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder set forth in Article 6 to the extent the same is within its control and to take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement, including using its commercially reasonable efforts to:

(i) obtain all necessary waivers, consents and approvals required to be obtained by it from other parties to loan agreements, leases and other contracts;

(ii) obtain all necessary consents, approvals and authorizations as are required to be obtained by it under any applicable Law;

(iii) effect all necessary registrations and filings and submissions of information requested by Governmental Entities required to be effected by it in connection with the Arrangement and participate and appear in any proceedings of either Party before Governmental Entities;

(iv) oppose, lift or rescind any injunction or restraining order or other order or action seeking to stop, or otherwise adversely affecting the ability of the parties to consummate, the transactions contemplated hereby or by the Arrangement;

(v) fulfil all conditions and satisfy all provisions of this Agreement and the Arrangement, including delivery of the certificates of their respective officers contemplated by Section 6.2 and Section 6.3; and

(vi) cooperate with the other Party to this Agreement in connection with the performance by it of its obligations hereunder;

(i) it shall not take any action, refrain from taking any action, or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to significantly impede the consummation of the Arrangement;

(j) subject to the Non-Disclosure Agreement, it will, in all material respects, conduct itself so as to keep the other Party to this Agreement fully informed as to the material decisions or actions required or required to be made with respect to the operation of its business, provided that such disclosure is not otherwise prohibited by reason of a confidentiality obligation owed to a third party for which a waiver could not be obtained or is in respect to customer specific or competitively sensitive information;

(k) it shall make or cooperate as necessary in the making of all necessary filings and applications under all applicable Laws required in connection with the transactions contemplated herein and take all reasonable action necessary to be in compliance with such Laws; and

(l) it shall use its reasonable commercial efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct in all material respects on and as of the Effective Date as if made thereon.

5.5 Mutual Covenant Regarding Non-Solicitation

(a) Neither BC TELECOM nor TELUS shall, directly or indirectly, through any officer, director, employee, representative or agent of BC TELECOM or TELUS, as the case may be, or any of their Subsidiaries, solicit, initiate, invite or knowingly encourage (including by way of furnishing confidential information or entering into any form of agreement, arrangement or understanding) the initiation of or participate in, any inquiries or proposals regarding an Acquisition Proposal, provided that, nothing contained in this Section 5.5 or other provisions of this Agreement shall prevent the Board of Directors of BC TELECOM or TELUS from considering or recommending to its shareholders an agreement in respect of an unsolicited *bona fide* written Acquisition Proposal (i) in respect of which any required financing has been demonstrated to the satisfaction of the Board of Directors of the Party subject to the Acquisition Proposal, acting in good faith, to be reasonably likely to be obtained, (ii) which is not subject to a due diligence access condition which allows access to the books, records and personnel of a Party hereto or any of its Subsidiaries or their representatives beyond 5:00 p.m. (Pacific Standard Time) on the fifth business day after which access is afforded to the person making the Acquisition Proposal (provided, however, the foregoing shall not restrict the ability of such person to continue to review the information provided); (iii) in respect of which the Board of Directors of the Party subject to the Acquisition Proposal determines (having consulted outside counsel) that in the exercise of their fiduciary duty it would be legally obligated to consider the Acquisition Proposal; and (iv) in respect of which the Board of Directors of the Party subject to the Acquisition Proposal, determines in good faith, after consultation with financial advisors, if consummated in accordance with its terms, would result in a transaction more favourable to its shareholders than the Combination (any such Acquisition Proposal being referred to herein as a "Superior Proposal");

(b) Subject to the ability of the Parties to carry on business in accordance with Section 5.4, BC TELECOM and TELUS shall immediately cease and cause to be terminated any existing discussions or negotiations with any parties (other than the other Party hereto) with respect to any potential Acquisition Proposal. BC TELECOM and TELUS agree not to release any third party from any confidentiality agreement to which such third party is a party. BC TELECOM and TELUS further agree not to release any third party from any standstill agreement to which such third party is a party, unless such third party has made a Superior Proposal. BC TELECOM and TELUS shall immediately request the return or destruction of all confidential information provided to any third parties (other than GTE) who have entered into a confidentiality agreement with BC TELECOM or TELUS, or as the case may be, relating to a potential Acquisition Proposal and shall use all reasonable efforts to ensure that such requests are honoured;

(c) Each of BC TELECOM and TELUS shall promptly notify the other Party of any current Acquisition Proposals or of any future Acquisition Proposal of which senior officers become aware, or any amendments to the foregoing, or any request for non-public information relating to BC TELECOM or TELUS, as the case may be, or any Material Subsidiaries in connection with an Acquisition Proposal or for access to the properties, books or records of such Party, or any Material Subsidiary by any person or entity that informs such Party or such Material Subsidiary that it is considering making, or has made, an Acquisition Proposal. Such notice shall include a description of the material terms and conditions of any proposal and provide such details of the proposal, inquiry or contact as the other Party hereto may reasonably request including the identity of the person making such proposal, inquiry or contact;

(d) If BC TELECOM or TELUS receives a request for material non-public information from a person who proposes a *bona fide* Acquisition Proposal in respect of BC TELECOM or TELUS, and the Board

of Directors of such Party determines that such proposal would be a Superior Proposal pursuant to Section 5.5(a) assuming the satisfactory outcome of a due diligence condition which conforms to Section 5.5(a), then, and only in such case, the Board of Directors may, subject to the execution of a confidentiality agreement substantially similar to the Non-Disclosure Agreement containing a standstill provision substantially similar to that contained in Section 5.8 of this Agreement, provide such person with access, in accordance with Section 5.5(a), to information regarding the Party, provided however the person making the Acquisition Proposal shall not be precluded thereunder from making the Acquisition Proposal, and provided such Party sends a copy of any such confidentiality agreement to the other Party, immediately upon its execution and the other Party is provided with a list of or copies of the information provided to such person and immediately provided with access to similar information to which such person was provided; and

(e) Each Party hereto shall ensure that its officers, directors and employees and its Subsidiaries and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section, and it shall be responsible for any breach of this Section 5.5 by its financial advisors or other advisors or representatives.

5.6 Notice of Superior Proposal Determination

Neither BC TELECOM nor TELUS shall accept, approve or recommend or enter into any agreement (except for a confidentiality agreement pursuant to Section 5.5(d)) in respect of an Acquisition Proposal on the basis that it constitutes a Superior Proposal unless (i) it has provided the other Party hereto with a copy of the Acquisition Proposal document which has been determined to be a Superior Proposal, with such deletions as are necessary to protect confidential portions of such Acquisition Proposal document, provided that material terms or conditions or the identity of the controlling person, if any, making the Acquisition Proposal may not be deleted; and (ii) five (5) business days (the "Notice Period") shall have elapsed from the later of the date the other Party received notice of the determination to accept, approve or recommend an agreement in respect of such Acquisition Proposal, and the date such Party received a copy of the Acquisition Proposal document. During the Notice Period, the Party receiving the Superior Proposal shall provide a reasonable opportunity to the other Party to consider, discuss and offer such adjustments in the terms and conditions of this Agreement as would enable the Party receiving the Superior Proposal to proceed with its recommendation to shareholders with respect to the Arrangement provided however that any such adjustment shall be at the discretion of the Parties at the time. Information provided hereunder shall constitute Confidential Information under the Non-Disclosure Agreement.

5.7 Access to Information

Subject to the Non-Disclosure Agreement and applicable Law, upon reasonable notice, TELUS shall (and shall cause each of its Subsidiaries to) afford BC TELECOM's officers, employees, counsel, accountants and other authorized representatives and advisors ("Representatives") access, during normal business hours from the date hereof and until the earlier of the Effective Date or the termination of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, TELUS shall (and shall cause each of its Subsidiaries to) furnish promptly to BC TELECOM all information concerning its business, properties and personnel as BC TELECOM may reasonably request. Subject to the Non-Disclosure Agreement and applicable Law, upon reasonable notice, BC TELECOM shall (and shall cause each of its Subsidiaries to) provide the same access to TELUS and its Representatives on the same terms and conditions. Nothing in the foregoing shall require BC TELECOM or TELUS to disclose information subject to a written confidentiality agreement with third parties or competitively sensitive information. For greater certainty, until the earlier of the Effective Date and the termination of this Agreement, access to and exchange of competitively sensitive confidential information ("Confidential Data") as between the Parties shall be limited to that which is reasonably necessary for the purposes of securing all necessary regulatory approvals, the preparation and settlement of definitive documents and the advancement of the Arrangement as contemplated herein and shall be further limited such that the dissemination of such Confidential Data shall be confined to those representatives of the Parties and their advisors who have a need to know such information for these purposes and who agree to respect such confidentiality in their dealings with such Confidential Data. In particular, with

reference to access to and the sharing of Confidential Data of one Party with representatives of the other Party for the purposes of preparing any filings or submissions under the Competition Act in respect of the Arrangement, the general principle which shall be applied is that such information shall be made available to, exchanged or shared with counsel to the Parties rather than the Parties or their representatives.

5.8 Mutual Standstill

During the period commencing on the date hereof and continuing until the Effective Date or the termination of this Agreement, other than pursuant to this Agreement, the Arrangement and the transactions contemplated hereby and thereby, each Party agrees that it will not, except in connection with this Agreement, the Arrangement or the Option Agreements or with the prior approval of the other Party, which approval may be given on such terms as the other Party may determine: (i) in any manner acquire, agree to acquire or make any proposal or offer to acquire, directly or indirectly, any securities or property of the other Party; (ii) propose or offer to enter into, directly or indirectly, any merger or business combination involving the other Party or to purchase, directly or indirectly, a material portion of the assets of the other Party; (iii) directly or indirectly, "solicit", or participate or join with any person in the "solicitation" of, any "proxies" (as such terms are defined in the *Securities Act* (British Columbia) or the *Securities Act* (Alberta), as the same may be amended from time to time) to vote, to seek to advise or to influence any person with respect to the voting of any voting securities of the other Party other than as contemplated in the Voting Agreement; (iv) otherwise act alone or in concert with others to seek to control or to influence the management, Board of Directors or policies of the other Party; or (v) advise, assist or encourage any of the foregoing or work in concert with others in respect of the foregoing. For the purpose of this Section 5.8, Party shall include successors and Subsidiaries of such Party and their successors.

5.9 Voting Agreement

GTE, Anglo-Canadian, BC TELECOM and TELUS have entered into the Voting Agreement.

5.10 Covenants of TELUS

TELUS covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

(a) in a timely and expeditious manner, file, proceed with and diligently prosecute an application to the Alberta Court for the Interim Order with respect to the Arrangement on behalf of TELUS, provided that notwithstanding the foregoing, the Parties agree to consult regarding seeking the Interim Orders and mailing the Joint Proxy Circular;

(b) in a timely and expeditious manner:

(i) forthwith carry out the terms of the Interim Order;

(ii) prepare, in consultation with BC TELECOM, and file the Joint Proxy Circular with respect to the BC TELECOM Meeting and the TELUS Meeting with respect to the approval of the Arrangement in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Orders and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and TELUS and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;

(iii) solicit proxies for the approval of the TELUS Arrangement Resolution in accordance with the Joint Proxy Circular and the Interim Orders;

(iv) convene the TELUS Meeting and distribute copies of this Agreement (or a written summary thereof prepared by TELUS in form and substance reasonably satisfactory to BC TELECOM), in each case as ordered by the Interim Orders;

(v) provide notice to BC TELECOM of the TELUS Meeting and allow BC TELECOM's representatives to attend the TELUS Meeting unless such attendance is prohibited by the Interim Orders;

(vi) conduct the TELUS Meeting in accordance with the Interim Orders, the by-laws of TELUS and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws;

(vii) approve the Arrangement as the holder of two MergeCo Common Shares, cause MergeCo to do all things necessary to be done by it to complete the Plan of Arrangement and cause MergeCo to do all things as may be necessary to fully perform and carry out the terms and intent hereof; and

(viii) cause MergeCo to approve the Arrangement as the sole shareholder of AcquisitionCo and cause AcquisitionCo to do all things necessary to be done by it to complete the Plan of Arrangement;

(c) in a timely and expeditious manner, prepare (in consultation with BC TELECOM) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Proxy Circular with respect to the TELUS Meeting and mail the same as required by the Interim Orders and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;

(d) subject to the approval of the Arrangement at the TELUS Meeting in accordance with the provisions of the Interim Orders and subject to Section 6.4, forthwith proceed with and diligently prosecute an application for the applicable Final Order;

(e) forthwith carry out the terms of the Interim Orders and the Final Orders and, subject to the receipt of the Final Orders, the satisfaction of the conditions precedent in favour of TELUS and the receipt of the written confirmation of BC TELECOM that the conditions precedent in favour of BC TELECOM have been satisfied and subject to Section 6.4, file Articles of Arrangement and the Final Orders with the Registrar in order for the Arrangement to become effective;

(f) except for proxies and other non-substantive communications, furnish promptly to BC TELECOM a copy of each notice, report, schedule or other document or communication delivered, filed or received by TELUS in connection with the Arrangement or the Interim Order, the TELUS Meeting or any other meeting of TELUS security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;

(g) in a timely and expeditious manner, provide to BC TELECOM all information as may be reasonably requested by BC TELECOM or as required by the Interim Order or applicable Laws with respect to TELUS and its Subsidiaries and their respective businesses and properties;

(h) prepare and file with all applicable securities commissions or similar securities regulatory authorities of Canada all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the federal and state securities laws of the United States for the issue by MergeCo of MergeCo Common Shares and MergeCo Non-Voting Shares pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to requirements of general application); and

(i) to the extent within its power, forthwith carry out the terms of the Final Orders.

5.11 Covenants of BC TELECOM

BC TELECOM covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

(a) in a timely and expeditious manner, file, proceed with and diligently prosecute an application to the BC Court for the Interim Order with respect to the Arrangement on behalf of BC TELECOM,

provided that notwithstanding the foregoing, the Parties agree to consult regarding seeking the Interim Order and mailing the Joint Proxy Circular;

(b) in a timely and expeditious manner:

(i) forthwith carry out the terms of the Interim Orders;

(ii) prepare, in consultation with TELUS, and file a Joint Proxy Circular with respect to the BC TELECOM Meeting and the TELUS Meeting with respect to the approval of the Arrangement in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Orders and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and BC TELECOM and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;

(iii) solicit proxies for the approval of the BC TELECOM Arrangement Resolution in accordance with the Joint Proxy Circular and the Interim Orders;

(iv) convene the BC TELECOM Meeting and distribute copies of this Agreement (or a written summary thereof prepared by BC TELECOM in form and substance reasonably satisfactory to TELUS), in each case as ordered by the Interim Orders;

(v) provide notice to TELUS of the BC TELECOM Meeting and allow TELUS representatives to attend the BC TELECOM Meeting unless such attendance is prohibited by the Interim Orders;

(vi) conduct the BC TELECOM Meeting in accordance with the Interim Orders, the by-laws of BC TELECOM and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws;

(vii) approve the Arrangement as the holder of one MergeCo Common Share, cause MergeCo to do all things necessary to be done by it to complete the Plan of Arrangement and cause MergeCo to do all things as may be necessary to fully perform and carry out the terms and intent hereof; and

(viii) cause MergeCo to approve the Arrangement as the sole shareholder of AcquisitionCo and cause AcquisitionCo to do all things necessary to be done by it to complete the Plan of Arrangement;

(c) in a timely and expeditious manner, prepare (in consultation with TELUS) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Proxy Circular with respect to the BC TELECOM Meeting and mail the same as required by the Interim Orders and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;

(d) subject to the approval of the Arrangement at the BC TELECOM Meeting in accordance with the provisions of the Interim Orders and subject to Section 6.4, forthwith proceed with and diligently prosecute an application for the Final Orders;

(e) forthwith carry out the terms of the Interim Orders and the Final Orders and, subject to the receipt of the Final Orders, the satisfaction of the conditions precedent in favour of BC TELECOM and the receipt of the written confirmation of TELUS that the conditions precedent in favour of TELUS have been satisfied and subject to Section 6.4, file Articles of Arrangement and the Final Orders with the Director in order for the Arrangement to become effective;

(f) except for proxies and other non-substantive communications, furnish promptly to TELUS a copy of each notice, report, schedule or other document or communication delivered, filed or received by BC TELECOM in connection with the Arrangement or the Interim Orders, the BC TELECOM Meeting or any other meeting of BC TELECOM security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;

(g) in a timely and expeditious manner, provide to TELUS all information as may be reasonably requested by TELUS or as required by the Interim Orders or applicable Laws with respect to BC TELECOM and its Subsidiaries and their respective businesses and properties;

(h) prepare and file with all applicable securities commissions or similar securities regulatory authorities of Canada all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities laws of Canada and the federal and state securities laws of the United States for the issue by MergeCo of MergeCo Common Shares and MergeCo Non-Voting Shares, pursuant to the Arrangement and the resale of such shares (other than by control persons and subject to requirements of general application);

(i) to the extent within its power, forthwith carry out the terms of the Final Orders; and

(j) furnish promptly to TELUS, a copy of each notice, report, schedule or other document or communication delivered or received by BC TELECOM in connection with the Heads of Agreement or the Technology Agreement and shall neither amend the Heads of Agreement nor settle, execute or deliver the Technology Agreement without the prior written consent of TELUS, such consent not to be unreasonably withheld.

5.12 Indemnification of Directors and Officers, Corporate Indemnities and Insurance

(a) For a period of six years after the Effective Date, MergeCo shall (i) maintain in effect the current or substantially similar (subject to any changes required by applicable law) provisions regarding indemnification of officers and directors contained in the constating documents of BC TELECOM and TELUS and their respective Subsidiaries and any directors, officers or employees indemnification agreements of BC TELECOM, TELUS and their respective Subsidiaries; (ii) maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by BC TELECOM and TELUS and their respective Subsidiaries (provided that MergeCo may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured in any material respect) with respect to claims arising from facts or events which occurred on or before the Effective Date, and (iii) indemnify the directors and officers of BC TELECOM and TELUS and their respective Subsidiaries to the fullest extent to which BC TELECOM and TELUS and their respective Subsidiaries are permitted to indemnify such officers and directors under their respective charters and bylaws and applicable law. MergeCo hereby unconditionally and irrevocably guarantees for the benefit of such directors, officers and employees the obligations of BC TELECOM and TELUS and their respective Subsidiaries under the foregoing indemnification arrangements.

(b) The provisions of this Section 5.12 are (i) for the benefit of, and shall be enforceable by, each indemnified party, his heirs, executors, administrators and other legal representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by contract or otherwise, and such rights shall be held by MergeCo in trust for such person provided however that no approval of any beneficiary of such trust shall be required in connection with an amendment or variation of this Section 5.12 prior to the Effective Date.

5.13 Covenants Regarding TELUS Cable Holdings Inc.

Each of BC TELECOM, TELUS and MergeCo covenant and agree that they shall not do any acts pursuant to the Arrangement or thereafter which would have the effect of controlling or influencing the programming decisions of TELUS Cable Holdings Inc. ("TELUS Cable") for so long as the existing broadcasting license held by TELUS Cable (issued pursuant to Decision CRTC 97-193) remains in force and effect. Each of BC TELECOM, TELUS and MergeCo further covenant and agree that from the Effective Date to May 31, 1999, the business and affairs of TELUS Cable (or its successors) will be managed and directed by the members of the board of directors of TELUS Cable (or its successors) immediately prior to the Effective Date.

5.14 Merger of Covenants

The covenants set out in this Agreement, except for Sections 5.12, 5.13 and 6.6 shall not survive the completion of the Arrangement, and shall expire and be terminated without recourse between the Parties upon such completion.

ARTICLE 6

CONDITIONS

6.1 Mutual Conditions

The obligations of TELUS and BC TELECOM to complete the transactions contemplated hereby are subject to fulfilment of the following conditions on or before the Effective Date or such other time as is specified below:

(a) the Interim Orders shall have been granted in form and substance satisfactory to TELUS and BC TELECOM, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;

(b) the TELUS Arrangement Resolution and the BC TELECOM Arrangement Resolution set forth in the Joint Proxy Circular shall have been passed at the TELUS Meeting and at the BC TELECOM Meeting in accordance with the Interim Orders;

(c) the Final Orders shall have been granted in form and substance satisfactory to TELUS and BC TELECOM, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;

(d) the Effective Date shall be on or before September 30, 1999, subject to any extension up to sixty (60) days from September 30, 1999, available to a Party pursuant to Section 6.4;

(e) there shall be no action taken under any Law or by any Governmental Entity, that:

(i) makes it illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions or agreements contemplated herein;

(ii) results in a judgment or assessment of damages, directly or indirectly, relating to the transactions or agreements contemplated herein which is materially adverse; or

(iii) would impose any condition or restriction upon MergeCo or its Subsidiaries (after giving effect to the Arrangement) which would so materially adversely impact the economic or business benefits of the transactions contemplated by this Agreement, and the subsequent business combination of BC TELECOM and TELUS, as to render inadvisable the consummation of the Arrangement;

(f) consents, waivers, permits, orders and approvals of any Governmental Entity (other than as contemplated in Section 6.1(g)) or other person, and the expiry of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure of which to obtain or the non-expiry of which would be materially adverse to BC TELECOM or TELUS, as the case may be, or materially impede the completion of the Arrangement, shall have been obtained or received on terms that will not have a material adverse effect to either BC TELECOM or TELUS and reasonably satisfactory evidence thereof shall have been delivered to each Party;

(g) the relevant waiting period in section 123 of the Competition Act shall have expired and (i) an advance ruling certificate ("ARC") pursuant to section 102 of the Competition Act shall have been issued by the Director of Investigation and Research ("Comp. Act Director") appointed under the Competition Act; or (ii) a "no action letter" satisfactory to BC TELECOM and TELUS, acting reasonably, indicating that the Comp. Act Director has determined not to make an application for an order under section 92 of the Competition Act shall have been received from the Comp. Act Director, and any terms and conditions attached to any such letter shall be acceptable to BC TELECOM and TELUS acting reasonably; or (ii) in the event that no ARC or "no action" letter is issued, there shall be no threatened

or actual application by the Comp. Act Director for an order under section 92 or 100 of the Competition Act;

(h) the MergeCo Common Shares and MergeCo Non-Voting Shares, issuable pursuant to the Arrangement shall have been conditionally approved for listing on The Toronto Stock Exchange subject to the filing of required documentation, any required prospectus exemptions shall have been obtained and such securities shall not be subject to resale restrictions in Canada or under the federal and state securities laws of the United States other than in respect of control persons and subject to requirements of general application;

(i) the auditors of BC TELECOM and TELUS shall have reaffirmed in writing, immediately prior to the mailing of the Joint Proxy Circular and immediately prior to the Effective Date, without material amendment, their opinions delivered under Section 5.1 and no Canadian securities regulator shall have objected to the Combination being accounted for as a pooling of interests under Canadian general accepted accounting principles;

(j) the Governance Arrangements in respect of MergeCo to be implemented prior to the Effective Date shall have been carried out as agreed in Schedule D; and

(k) the holders of not more than 5% of the issued and outstanding BC TELECOM Shares or the holders of not more than 5% of the issued and outstanding TELUS Shares, shall have exercised rights of dissent in relation to the Arrangement and have not withdrawn such dissents.

The foregoing conditions are for the mutual benefit of TELUS and BC TELECOM and may be waived, in whole or in part, by TELUS and/or BC TELECOM at any time. If any of the said conditions precedent shall not be complied with or waived as aforesaid on or before the date required for the performance thereof, either TELUS or BC TELECOM may rescind and terminate this Agreement by written notice to the other Party (provided such non-compliance did not arise from the acts or omissions of the Party purporting to rescind and terminate this Agreement) and shall have no other right or remedy, except as set forth in Article 8 or 9.

6.2 TELUS Conditions

The obligation of TELUS to complete the transactions contemplated herein is subject to the fulfilment of the following conditions on or before the Effective Date or such other time as specified below:

(a) the representations and warranties made by BC TELECOM in this Agreement shall, in the reasonable judgment of TELUS, be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have, or would not reasonably be expected to have, a material adverse effect on BC TELECOM or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement), and BC TELECOM shall have provided to TELUS the certificate of two qualified officers of BC TELECOM certifying such accuracy on the Effective Date;

(b) BC TELECOM shall have complied with its covenants herein, except to the extent the failure, in the reasonable judgment of TELUS, to comply with such covenants has not had, or would not reasonably be expected to have, individually or in the aggregate a material adverse effect on BC TELECOM or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement, and BC TELECOM shall have provided to TELUS the certificate of two qualified officers of BC TELECOM certifying that BC TELECOM has so complied with its covenants herein; and

(c) from the date hereof and up to and including the Effective Date, there shall have been no change, effect, event, occurrence or change in state of facts which has had or, in the reasonable judgment of TELUS has or would reasonably be expected to have, a material adverse effect on BC TELECOM.

The foregoing conditions precedent are for the benefit of TELUS and may be waived, in whole or in part, by TELUS in writing at any time. If any of the said conditions shall not be complied with or waived by TELUS on or before the date required for their performance and provided such non-compliance did not arise from the

acts or omissions of TELUS, then TELUS may rescind and terminate this Agreement by written notice to BC TELECOM and shall have no other right or remedy against BC TELECOM, except as set forth in Article 8 or 9.

6.3 BC TELECOM Conditions

The obligation of BC TELECOM to complete the transactions contemplated herein is subject to the fulfilment of the following conditions on or before the Effective Date or such other time as specified below:

(a) the representations and warranties made by TELUS in this Agreement shall be, in the reasonable judgement of BC TELECOM, true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have, or would not reasonably be expected to have, a material adverse effect on TELUS or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement), and TELUS shall have provided to BC TELECOM the certificate of two qualified officers of TELUS certifying such accuracy on the Effective Date;

(b) TELUS shall have complied with its covenants herein, except to the extent the failure, in the reasonable judgment of BC TELECOM, to comply with such covenants has not had, or would not reasonably be expected to have, individually or in the aggregate a material adverse effect on TELUS or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement, and TELUS shall have provided to BC TELECOM the certificate of two qualified officers of TELUS certifying that TELUS has so complied with its covenants herein; and

(c) from the date hereof and up to and including the Effective Date, there shall have been no change, effect, event, occurrence or change in state of facts which has had or in the reasonable judgment of BC TELECOM has or would reasonably be expected to have, a material adverse effect on TELUS.

The foregoing conditions precedent are for the benefit of BC TELECOM and may be waived, in whole or in part, by BC TELECOM in writing at any time. If any of the said conditions shall not be complied with or waived by BC TELECOM on or before the date required for their performance and provided such non-compliance did not arise from the acts or omissions of BC TELECOM, then BC TELECOM may rescind and terminate this Agreement by written notice to TELUS and shall have no other right or remedy against TELUS, except as set forth in Article 8 or 9.

6.4 Notice and Cure Provisions

Each Party will give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would be likely to:

(a) cause any of the representations or warranties of any Party contained herein to be untrue or inaccurate in any material respect on the date hereof or at the Effective Date; or

(b) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder prior to the Effective Date.

No Party may elect not to complete the transactions contemplated hereby pursuant to the conditions precedent contained in Sections 6.1, 6.2 and 6.3 or any termination right arising therefrom and no payments are payable as a result of such election pursuant to Section 8.1, 8.2 or 8.3 unless forthwith and in any event prior to the filing of the Articles of Arrangement for acceptance by the Director and the Registrar, the Party intending to rely thereon has delivered a written notice to the other Party specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Party delivering such notice is asserting as the basis for the non-fulfilment or the applicable condition precedent or termination right, as the case may be. If any such notice is delivered, provided that a Party is proceeding diligently to cure such matter and such matter is capable of being cured (except matters arising out of the failure to make appropriate disclosure in the disclosure

statements delivered on the date of execution of this agreement pursuant to Section 1.10 hereof) no Party may terminate this Agreement until the later of September 30, 1999 and the expiration of a period of 60 days from such notice. If such notice has been delivered prior to the date of the BC TELECOM Meeting and the TELUS Meeting, such meetings shall be postponed until the expiry of such period. If such notice has been delivered prior to the making of the applications for Final Orders or the filing of the Articles of Arrangement with the Director or the Registrar, such applications and such filings shall be postponed until the expiry of such period.

6.5 Merger of Conditions

The conditions set out in Sections 6.1, 6.2 and 6.3 shall be conclusively deemed to have been satisfied, waived or released upon the joint filing of Articles of Arrangement, as contemplated by this Agreement, and the issuance of a certificate of arrangement in respect thereof under the CBCA. Notwithstanding the foregoing, the covenants set forth in Sections 5.12, 5.13 and 6.6 shall survive the joint filing of Articles of Arrangement, as contemplated by this Agreement, and the issuance of a certificate of arrangement in respect thereof under the CBCA.

6.6 Post Arrangement Transactions

Immediately following the Effective Time, MergeCo will appoint the committees and officers as set forth or determined as contemplated in the Governance Arrangements on or prior to the Effective Time, MergeCo will execute and deliver the Long-Term Relationship Agreement; and TELUS will assign all of its right, title and interest in the TELUS Corporation Performance Share Unit Plan (the "TELUS PSU") to MergeCo and MergeCo shall accept such assignment and assume all obligations of TELUS thereunder and under performance share units previously granted thereunder, subject to adjustments made to the TELUS PSU and units thereunder by the board of directors of TELUS pursuant to section 11(b) of the TELUS PSU to reflect the transactions contemplated by the Arrangement and the TELUS Exchange Ratio.

6.7 Elective Rollover Alternative

At the request of a BC TELECOM Shareholder or a TELUS Shareholder who receives MergeCo Common Shares or MergeCo Non-Voting Shares from MergeCo as part of the Arrangement, MergeCo will jointly elect with the holder under subsection 85(1) of the Tax Act or under any similar provincial legislation so as to permit such holder to elect proceeds of disposition for tax purposes of the holder's BC TELECOM Common Shares or TELUS Common Shares, as the case may be, disposed of to MergeCo within the limits specified in the applicable legislation. BC TELECOM Shareholders or TELUS Shareholders who wish to make such an election under subsection 85(1) of the Tax Act or under any similar provincial legislation must obtain, complete and execute the necessary election forms and forward the signed forms, together with a return address, to MergeCo at the address specified in the Joint Circular. MergeCo will in turn, sign the forms and mail them to the holder within 45 days of their receipt by MergeCo to the holder for filing with Revenue Canada, Taxation or any provincial taxing authority. MergeCo will not be liable for any loss or damage resulting from the late filing of any election form or from the invalidation of any election form unless such late filing or invalidation is solely attributable to any act or omission of MergeCo.

ARTICLE 7

AMENDMENT

7.1 Amendment

This Agreement and the Plan of Arrangement may, at any time and from time to time before or after the holding of the BC TELECOM and TELUS Meetings, be amended by agreement, and any such amendment may, without limitation:

(a) change the time for performance of any of the obligations or acts of the Parties;

(b) waive any inaccuracies or modify any representation contained herein or in any document delivered pursuant hereto;

(c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; and

(d) waive compliance with or modify any conditions precedent herein contained;

provided that: (i) notwithstanding the foregoing, following the receipt of TELUS Shareholder approval, the number of MergeCo Common Shares and MergeCo Non-Voting Shares which the TELUS Common Shareholders shall have the right to receive on the Arrangement may not be decreased or the number of MergeCo Common Shares and MergeCo Non-Voting Shares which the BC TELECOM Common Shareholders shall have the right to receive on the Arrangement may not be increased without the further approval of the TELUS Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Alberta Court; and (ii) notwithstanding the foregoing, following the receipt of BC TELECOM Shareholder approval, the number of MergeCo Common Shares and MergeCo Non-Voting Shares which the BC TELECOM Common Shareholders shall have the right to receive on the Arrangement may not be decreased or the number of MergeCo Common Shares and MergeCo Non-Voting Shares which TELUS Common Shareholders shall have the right to receive on the Arrangement may not be increased without the further approval of the BC TELECOM Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the BC Court.

ARTICLE 8

AGREEMENT AS TO COMPENSATION AND OTHER ARRANGEMENTS

8.1 BC TELECOM Compensation

(1) If at any time after the execution of this Agreement:

(a) a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the shareholders of TELUS or to TELUS, and such Acquisition Proposal: (i) has been accepted; or (ii) has not expired or been withdrawn at the time of the TELUS Meeting and the TELUS Shareholders do not approve the Arrangement;

(b) any person (or group of persons acting in concert) acquires more than 10% of the TELUS Common Shares on or before the Effective Date, and as a result thereof or in connection therewith a condition set forth in Section 6.1 or Section 6.3 is not (or is determined by BC TELECOM, acting reasonably, not to be) capable of being satisfied and the Arrangement is as a result not completed and further provided that such person (or group of persons acting in concert), within 12 months of the date of termination of this Agreement either: (i) acquires, whether by way of an Acquisition Proposal or otherwise, additional TELUS Common Shares such that such person (or group of persons acting in concert) then holds more than 40% of the then issued and outstanding TELUS Common Shares; or (ii) completes or agrees with TELUS to complete a merger, amalgamation, business combination or sale of material assets involving TELUS or any Material Subsidiaries of TELUS; or

(c) the Board of Directors of TELUS has withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.4(a) in a manner adverse to BC TELECOM or shall have resolved to do so prior to the Effective Date;

(each of the above being a "BC TELECOM Payment Event"), then TELUS shall pay to BC TELECOM $130 million in immediately available funds to an account designated by BC TELECOM within one business day after the first to occur of the events described above.

(2) In circumstances in which: (i) Section 8.1(1) or 8.3(b) apply; or (ii) the TELUS Shareholders do not approve the Arrangement despite the Board of Directors of TELUS not having withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.4(a) in a manner adverse to BC TELECOM or resolving to do so prior to the Effective Date; then TELUS shall pay to BC TELECOM an amount equal to its expenses in connection with the transactions as agreed by the Parties in writing by letter dated October 19, 1998 (the "BC TELECOM Reimbursement Payment") in

immediately available funds to an account designated by BC TELECOM within one business day after the first to occur of the events described above.

(3) Notwithstanding anything to the contrary contained herein, if a payment has been made under any of Section 8.1(1)(a), (b) or (c) above or Section 8.3(b), no further payment shall be required under Section 8.1(1)(a), (b) or (c) or Section 8.3(b).

8.2 TELUS Compensation

(1) If at any time after the execution of this Agreement:

(a) a *bona fide*, Acquisition Proposal is publicly announced, proposed, offered or made to the shareholders of BC TELECOM or to BC TELECOM, and such Acquisition Proposal: (i) has been accepted; or (ii) has not expired or been withdrawn at the time of the BC TELECOM Meeting and the BC TELECOM Shareholders do not approve the Arrangement;

(b) any person (or group of persons acting in concert), other than GTE or any of its affiliates or any of their respective successors or assigns, acquires more than 10% of the BC TELECOM Common Shares on or before the Effective Date and as a result thereof or in connection therewith a condition set forth in Section 6.1 or Section 6.2 is not (or is determined by TELUS, acting reasonably, not to be) capable of being satisfied and the Arrangement is as a result not completed and further provided that such person (or group of persons acting in concert) within 12 months of the date of termination of this Agreement either: (i) acquires, whether by way of an Acquisition Proposal or otherwise, additional BC TELECOM Common Shares such that such person (or group of persons acting in concert) then holds more than 40% of the then issued and outstanding BC TELECOM Common Shares; or (ii) completes or agrees with BC TELECOM to complete a merger, amalgamation, business combination or sale of material assets involving BC TELECOM or any Material Subsidiary of BC TELECOM; or

(c) the Board of Directors of BC TELECOM has withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.5(b) in a manner adverse to TELUS or shall have resolved to do so prior to the Effective Date;

(each of the above being a "TELUS Payment Event"), then BC TELECOM shall pay to TELUS $130 million as liquidated damages in immediately available funds to an account designated by TELUS within one business day after the first to occur of the events described above.

(2) In circumstances in which: (i) Section 8.2(1) or 8.3(a) apply; or (ii) the BC TELECOM Shareholders do not approve the Arrangement despite the Board of Directors of BC TELECOM not having withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.5(b) in a manner adverse to TELUS or resolving to do so prior to the Effective Date; then BC TELECOM shall pay to TELUS an amount equal to its expenses in connection with the transactions contemplated by this Agreement as agreed by the Parties in writing by letter dated October 19, 1998 (the "TELUS Reimbursement Payment") in immediately available funds to an account designated by TELUS within one business day after the first to occur of the events described above.

(3) Notwithstanding anything to the contrary contained herein, if a payment has been made under any of Section 8.2(1)(a), (b) or (c) above or Section 8.3(a), no further payment shall be required under Section 8.2(1)(a), (b) or (c) or Section 8.3(a).

8.3 Liquidated Damages

(a) Subject to any applicable cure period under Section 6.4, if this Agreement is terminated pursuant to Section 9.1(b) as a result of the circumstances described in Section 6.2(a) or Section 6.2(b), then BC TELECOM shall, promptly following such termination, pay to TELUS $130 million as liquidated damages in immediately available funds within one business day after such termination to an account

designated by TELUS. If a payment has been made under Section 8.2(1)(a), (b) or (c) above as required, no payment shall be required under this Section 8.3(a).

(b) Subject to any applicable cure period under Section 6.4, if this Agreement is terminated pursuant to Section 9.1(b) as a result of the circumstances described in Section 6.3(a) or Section 6.3(b), then TELUS shall, promptly following such termination, pay to BC TELECOM $130 million as liquidated damages in immediately available funds within one business day after such termination to an account designated by BC TELECOM. If a payment has been made under Section 8.1(1)(a), (b) or (c) above as required, no payment shall be required under this Section 8.3(b).

(c) Each Party acknowledges that the amounts set out in this Section 8.3 represent liquidated damages which are a genuine pre-estimate of the damages, including opportunity costs, which the Party entitled to such damages will suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement, and are not penalties. Each Party irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive.

8.4 Limited Remedy

For greater certainty, the Parties agree that the compensation or damages to be received pursuant to this Article 8 is the sole remedy in compensation or damages of the party receiving such payment. Nothing herein shall preclude a Party from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements set forth in this Agreement or the Non-Disclosure Agreement or otherwise to obtain specific performance of any of such act, covenants or agreements, without the necessity of posting bond or security in connection therewith.

8.5 Options to BC TELECOM and TELUS

On October 19, 1998, TELUS and BC TELECOM executed and delivered Option Agreements pursuant to which BC TELECOM was granted the option to purchase TELUS Common Shares and TELUS was granted the option to purchase BC TELECOM Common Shares, each upon the terms and subject to the conditions contained therein.

ARTICLE 9

TERMINATION

9.1 Termination

This Agreement may be terminated at any time prior to the Effective Date:

(a) by mutual written consent of BC TELECOM and TELUS;

(b) as provided in Sections 6.1, 6.2 and 6.3, subject to the right to cure pursuant to Section 6.4;

(c) by BC TELECOM upon the occurrence of a BC TELECOM Payment Event as provided in Section 8.1 provided that in the event of a BC TELECOM Payment Event provided for in Section 8.1(1)(a)(ii), this Agreement may not be terminated by BC TELECOM unless TELUS Shareholders do not approve the Arrangement;

(d) by TELUS upon the occurrence of a TELUS Payment Event as provided in Section 8.2 provided that in the event of a TELUS Payment Event provided for in Section 8.2(1)(a)(ii), this Agreement may not be terminated by TELUS unless the BC TELECOM Shareholders do not approve the Arrangement;

(e) by BC TELECOM upon the acceptance of an Acquisition Proposal pursuant to, and in accordance with, Section 5.6 or Section 8.2(1)(a) (and provided payment of the TELUS Reimbursement Payment and the applicable amounts under Section 8.2(1) to TELUS have been made); and

(f) by TELUS upon the acceptance of an Acquisition Proposal pursuant to, and in accordance with, Section 5.6 or Section 8.1(1)(a) (and provided payment of the BC TELECOM Reimbursement Payment and the applicable amounts under Section 8.1(1) to BC TELECOM have been made).

In the event of the termination of this Agreement in the circumstances set out in paragraphs (a) through (f) of this Section 9.1, this Agreement shall forthwith become void and neither Party shall have any liability or further obligation to the other Party hereunder, except with respect to the obligations set forth in Article 8 which shall survive such termination and except for the obligations set forth in Section 5.8 which shall survive until the first anniversary of such termination. In the event of termination, the Arrangement and Plan of Arrangement shall be terminated without any TELUS Common Shares being exchanged. Nothing contained in this Section 9.1 or Article 8, including the payment of an amount under Article 8, shall, however, relieve or have the effect of resulting in relieving any Party in any way from liability for damages incurred or suffered by a Party as a result of a breach of this Agreement by a Party acting in bad faith intended and designed to prevent the conditions precedent to this Agreement's completion from being satisfied.

ARTICLE 10

GENERAL

10.1 Expenses

(a) The Parties agree that, except as provided herein, all out-of-pocket third party transaction expenses of the Arrangement, including legal fees, financial advisor fees, regulatory filing fees, all disbursements by advisors and printing and mailing costs, shall be paid by the Party incurring such expenses.

(b) BC TELECOM and TELUS represent and warrant to each other that, except for J. P. Morgan & Co. Inc., TD Securities Inc. and CIBC Wood Gundy Inc. in the case of BC TELECOM and RBC Dominion Securities Inc. and Salomon Smith Barney in the case of TELUS, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement. Each Party to this Agreement has provided to the other Party a correct and complete copy of all agreements relating to the Arrangement between it and its financial advisors as are in existence at the date hereof and agrees not to amend the terms of any such agreements relating to the payment of fees and expenses without the prior written approval of the other Party.

10.2 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a Party to any other Party shall be in writing and may be given by delivering same or sending same by facsimile transmission or by delivery addressed to the Party to which the notice is to be given at its address for service herein. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a business day, if not, the next succeeding business day) and if sent by facsimile transmission be deemed to have been given and received at the time of receipt unless actually received after 4:00 p.m. at the point of delivery in which case it shall be deemed to have been given and received on the next business day.

The address for service of each of the parties hereto shall be as follows:

(a) if to BC TELECOM:

BC TELECOM Inc.
21st Floor
3777 Kingsway
Burnaby, British Columbia
V5H 3Z7

Attention: Corporate Secretary
Fax: (604) 432-5681

with a copy to:

Farris, Vaughan, Wills & Murphy
2600 - 700 West Georgia Street
Vancouver, B.C.
V7Y 1B3

Attention: E.J. Harrison, Q.C.
Fax: (604) 661-1739

(b) if to TELUS:

TELUS Corporation
10020 100th St. N.W.
Edmonton, Alberta
T5J 0N5

Attention: Corporate Secretary
Fax: (403) 493-6542

with a copy to:

Bennett Jones
Barristers and Solicitors
4500, 855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Attention: J. Douglas Foster
Fax (403) 265-7219

(c) if to MergeCo

BCT.TELUS Communications Inc.
c/o BC TELECOM Inc.
21st Floor
3777 Kingsway
Burnaby, British Columbia
V5H 3Z7

Attention: Corporate Secretary
Fax: (604) 432-5681

and

c/o TELUS Corporation
10020 100th St. N.W.
Edmonton, Alberta
T5J 0N5

Attention: Corporate Secretary
Fax: (403) 493-6542

with a copy to:

Farris, Vaughan, Wills & Murphy
2600 - 700 West Georgia Street
Vancouver, B.C.
V7Y 1B3

Attention: E.J. Harrison, Q.C.
Fax: (604) 661-1739

and with a copy to:

Bennett Jones
Barristers and Solicitors
4500, 855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Attention: J. Douglas Foster
Fax (403) 265-7219

10.3 Time of Essence

Time shall be of the essence in this Agreement.

10.4 Entire Agreement

This Agreement and the Non-Disclosure Agreement except for Sections 18 and 18A thereof, which are hereby terminated, constitute the entire agreement between the parties hereto and cancel and supersede all prior agreements and understandings between the parties with respect to the subject matter hereof.

10.5 Further Assurances

Each Party hereto shall, from time to time, and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

10.6 Governing Law

This Agreement shall be governed by, and be construed in accordance with, the laws of the Province of Alberta and the laws of Canada. Each Party hereto hereby irrevocably attorns to the non-exclusive jurisdiction of the Courts of the Province of British Columbia and Alberta in respect of all matters arising under or in relation to this Agreement.

10.7 Execution in Counterparts

This Agreement may be executed in identical counterparts, each of which is and is hereby conclusively deemed to be an original and the counterparts collectively are to be conclusively deemed to be one instrument.

10.8 Waiver

No waiver by any Party hereto shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

10.9 Enurement and Assignment

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by any Party hereto without the prior written consent of the other Party hereto.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

BC TELECOM INC.

Per: "IAN D. MANSFIELD"
Authorized Signatory

Per: "JAMES W. PETERS"
Authorized Signatory

TELUS CORPORATION

Per: "GEORGE K. PETTY"
Authorized Signatory

Per: "FRANK J. PARROTTA"
Authorized Signatory

BCT.TELUS COMMUNICATIONS INC.

Per: "GEORGE K. PETTY"
Authorized Signatory

SCHEDULE A

PLAN OF ARRANGEMENT

under the *Canada Business Corporations Act*
and the *Business Corporations Act* (Alberta)

concerning

BC TELECOM Inc., TELUS Corporation,
BCT.TELUS Communications Inc. and 3481646 Canada Inc.

and

the Holders of BC TELECOM Shares and
the Holders of TELUS Shares

Plan of Arrangement of BC TELECOM Inc. and its Shareholders
under Section 192 of the
Canada Business Corporations Act

Plan of Arrangement of TELUS Corporation and its Shareholders
under Section 186 of the
***Business Corporations Act* (Alberta)**

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless the context should otherwise require, the following terms have the following meanings:

"**ABCA**" means the *Business Corporations Act*, S.A. 1981, c. B-15, as amended;

"**AcquisitionCo**" means 3481646 Canada Inc., a wholly-owned Subsidiary of MergeCo;

"**Alberta Court**" means the Court of Queen's Bench of Alberta;

"**Arrangement**" means the arrangement in respect of BC TELECOM under the provisions of section 192 of the CBCA and the arrangement in respect of TELUS under the provisions of section 186 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

"**Arrangement Agreement**" means the amended and restated arrangement agreement dated October 27, 1998, between BC TELECOM, TELUS and MergeCo as may be amended from time to time;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement in respect of BC TELECOM required by the CBCA to be sent to the Director and in respect of TELUS required by the ABCA to be sent to the Registrar, in each case, after the Final Order is made;

"**BC Court**" means the Supreme Court of British Columbia;

"**BC TELECOM**" means BC TELECOM Inc., a corporation incorporated under the CBCA;

"**BC TELECOM Common Shareholders**" means the holders of BC TELECOM Common Shares;

"**BC TELECOM Common Shares**" means the common shares in the capital of BC TELECOM;

"**BC TELECOM Dissenting Shareholders**" mean the BC TELECOM Common Shareholders or the BC TELECOM Optionholders, as the case may be, who exercise their right to dissent in accordance with Article 4 hereof and who are ultimately entitled to be paid the fair value for such BC TELECOM Shares;

"**BC TELECOM Exchange Ratio**" with respect to the BC TELECOM Shares, means one MergeCo Common Share or one MergeCo Non-Voting Share, as applicable, for each BC TELECOM Share as provided in this Plan of Arrangement;

"**BC TELECOM Meeting**" means the meeting of BC TELECOM Shareholders as is required to be held in accordance with the Interim Order;

"**BC TELECOM Option Plans**" means the BC TELECOM Share Option Plan and the BC TELECOM Long-Term Incentive Share Option Plan;

"**BC TELECOM Optionholders**" means the holders of options under the BC TELECOM Option Plans;

"**BC TELECOM Shareholders**" means the BC TELECOM Common Shareholders and the BC TELECOM Optionholders;

"**BC TELECOM Shares**" mean the BC TELECOM Common Shares and the options under the BC TELECOM Option Plans;

"**BC TELECOM Taxable Exchange Shareholder**" means each Holder of BC TELECOM Common Shares who is:

(a) a Non-Resident Shareholder, or

(b) a Tax-Exempt Shareholder;

"**business day**" means any day, other than Saturday, Sunday and a statutory holiday in the Provinces of Alberta or British Columbia;

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

"**Certificate of Arrangement**" means the certificate of arrangement issued to BC TELECOM in respect of the Plan of Arrangement pursuant to the CBCA;

"**Certificate**" means the Certificate of Arrangement;

"**Court**" means either of the Alberta Court or the BC Court as the case may be;

"**Depository**" means Montreal Trust Company of Canada, at the offices indicated in the Letters of Transmittal;

"**Director**" means the Director appointed pursuant to Section 260 of the CBCA;

"**Effective Date**" means the date indicated upon the Certificate;

"**Effective Time**" means 11:59 p.m. (Pacific Standard Time) on the Effective Date;

"**Final Order**" means the orders of the Alberta Court and the BC Court approving the Arrangement, as such orders may be amended at any time prior to the Effective Time;

"**Holder**" means a Person who is the beneficial owner of securities and "**Registered Holder**" means the person whose name appears on the register of the relevant Party as the owner of securities;

"**Interim Orders**" means the orders of the Alberta Court and the BC Court as the same may be amended, containing declarations, orders and directions in respect of BC TELECOM under the CBCA and in respect of TELUS under the ABCA, in each case, with respect to the Arrangement;

"**Joint Circular**" means the joint management information circular to be prepared and sent to the BC TELECOM Shareholders and TELUS Shareholders in connection with the Meetings and in accordance with the Interim Orders;

"**Letters of Transmittal**" means the letter forwarded by BC TELECOM to the BC TELECOM Common Shareholders and the letter forwarded by TELUS to the TELUS Common Shareholders concurrently with the forwarding of the Joint Circular for the Meetings;

"**Meetings**" means the BC TELECOM Meeting and the TELUS Meeting;

"**MergeCo**" means BCT.TELUS Communications Inc, a company incorporated under the BCCA, one MergeCo Common Share of which is owned by BC TELECOM and two MergeCo Common Shares of which are owned by TELUS;

"**MergeCo Common Shares**" means the common shares in the capital of MergeCo;

"**MergeCo Non-Voting Shares**" means the non-voting shares in the capital of MergeCo;

"**MergeCo Certificate**" means a certificate that upon the Effective Date represents the MergeCo Common Shares or the MergeCo Non-Voting Shares, as the case may be;

"**Non-Resident Shareholder**" means any Holder of BC TELECOM Common Shares or TELUS Common Shares, as the case may be, who is not resident in Canada for the purposes of the Tax Act;

"**Parties**" means BC TELECOM, TELUS and MergeCo; and "**Party**" means any one of them;

"**Person**" includes an individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

"**Plan of Arrangement**" or "**Plan**" means this plan of arrangement dated October 27, 1998 and any amendment or variation thereto made in accordance with Section 6.4 hereof;

"**Registrar**" means the Registrar of Corporations appointed pursuant to Section 253 of the ABCA;

"**Shareholders**" means the BC TELECOM Common Shareholders and the TELUS Common Shareholders;

"**Subsidiary**" means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to a Subsidiary;

"**Tax Act**" means the *Income Tax Act* (Canada);

"**Tax-Exempt Shareholder**" means any Holder of BC TELECOM Common Shares or TELUS Common Shares, as the case may be, (other than a Non-Resident Shareholder) that is exempt from tax under Part I of the Tax Act;

"**TELUS Exchange Ratio**" with respect to the TELUS Shares means .7773 of a MergeCo Common Share or .7773 of a MergeCo Non-Voting Share, as applicable, for each TELUS Share as provided in this Plan of Arrangement;

"**TELUS**" means TELUS Corporation, a corporation incorporated under the ABCA;

"**TELUS Common Shareholders**" means the Holders of TELUS Common Shares;

"**TELUS Common Shares**" means the common shares in the capital of TELUS;

"**TELUS Dissenting Shareholders**" mean the TELUS Common Shareholders or the TELUS Optionholders, as the case may be, who exercise their right to dissent in accordance with Article 4 hereof and who are ultimately entitled to be paid the fair value for such TELUS Shares;

"**TELUS Meeting**" means such meetings of TELUS Shareholders as are required to be held in accordance with the Interim Order;

"**TELUS Option Plans**" mean the TELUS Stock Option Plan and the TELUS Directors Stock Option Plan;

"**TELUS Optionholders**" mean the holders of options under the TELUS Option Plans;

"**TELUS Shareholders**" mean the TELUS Common Shareholders and the TELUS Optionholders;

"**TELUS Shares**" mean the TELUS Common Shares and the options under the TELUS Option Plans;

"**TELUS Taxable Exchange Shareholder**" means each Holder of TELUS Common Shares who is:

(a) a Non-Resident Shareholder, or

(b) a Tax-Exempt Shareholder.

1.2 Interpretation Not Affected by Headings

The division of this Plan into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan.

1.3 Article References

Unless the contrary intention appears, references in this Plan to an Article, Section, subsection, paragraph or Schedule by number or letter or both refer to the Article, Section, subsection, paragraph or Schedule, respectively, bearing that designation in this Plan.

1.4 Number and Gender

In this Plan, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof).

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.6 Currency

Unless otherwise stated, all references in this Plan to sums of money are expressed in lawful money of Canada.

1.7 Exhibits

The following exhibit is incorporated into and forms part of this Plan of Arrangement:

Exhibit A: Directors of BCT.TELUS Communications Inc. as a result of the Plan of Arrangement

1.8 Payments

Any payments to be made hereunder, including exchanges for BC TELECOM Shares or TELUS Shares, as the case may be, shall be made without interest and less any tax required by law to be deducted and withheld.

ARTICLE 2

PURPOSE AND EFFECT OF THE PLAN OF ARRANGEMENT

2.1 This Plan of Arrangement is made pursuant to and subject to the provisions of the Arrangement Agreement. The following is only intended as a general statement of the purpose of this Plan of Arrangement and is qualified in its entirety by the specific provisions of this Plan of Arrangement. The purpose of the Plan is to effect a merger of equals between BC TELECOM and TELUS for the benefit of the BC TELECOM Shareholders and the TELUS Shareholders.

2.2 This Plan of Arrangement upon filing of the Articles of Arrangement and upon the effectiveness of such Articles of Arrangement, will become effective in the sequence set out in Section 3.2 (except as otherwise provided therein) and be binding from and after the Effective Time.

2.3 The implementation of this Plan of Arrangement is expressly subject to the fulfilment and/or waiver (by the Party or Parties entitled) of the conditions precedent set out in the Arrangement Agreement.

ARTICLE 3

THE ARRANGEMENT

3.1 As at the Effective Time, each of the events described in Section 3.2 shall occur and shall be deemed to occur in the sequence and at the times set out therein (except as otherwise provided below) without any further authorization of any of the Persons referred to in Section 2 or any further act or formality.

3.2 The following shall occur in the following sequence (except as otherwise provided below):

3.2.1 all TELUS Common Shareholders (other than TELUS Dissenting Shareholders) shall dispose of their TELUS Common Shares in exchange for shares of MergeCo on the following basis:

3.2.1.1 TELUS Common Shareholders (other than TELUS Taxable Exchange Shareholders) shall dispose of (i) 75% of their TELUS Common Shares to MergeCo (free and clear of any

encumbrances) in exchange for MergeCo Common Shares on the basis of the TELUS Exchange Ratio and (ii) 25% of their TELUS Common Shares to MergeCo (free and clear of any encumbrances) in exchange for MergeCo Non-Voting Shares on the basis of the TELUS Exchange Ratio;

3.2.1.2 TELUS Taxable Exchange Shareholders shall dispose of (i) 75% of their TELUS Common Shares to AcquisitionCo (free and clear of any encumbrances) in exchange for MergeCo Common Shares on the basis of the TELUS Exchange Ratio and (ii) 25% of their TELUS Common Shares to AcquisitionCo (free and clear of any encumbrances) in exchange for MergeCo Non-Voting Shares on the basis of the TELUS Exchange Ratio;

3.2.1.3 upon the exchange referred to in this Section 3.2.1, each Holder of assigned TELUS Common Shares shall cease to be such a holder, shall have his or her name removed from the register of holders of TELUS Common Shares and shall become a holder of the number of fully paid MergeCo Common Shares and MergeCo Non-Voting Shares to which he or she is entitled as a result of such exchange and such holder's name shall be added to the register of holders of MergeCo Common Shares and MergeCo Non-Voting Shares, accordingly. MergeCo and AcquisitionCo shall be registered as the holders of the TELUS Common Shares assigned to them pursuant to this Section 3.2.1 and shall be added to the register of holders of TELUS Common Shares accordingly;

3.2.2 all BC TELECOM Common Shareholders (other than BC TELECOM Dissenting Shareholders) shall dispose of their BC TELECOM Common Shares in exchange for shares of MergeCo on the following basis:

3.2.2.1 BC TELECOM Common Shareholders (other than BC TELECOM Taxable Exchange Shareholders) shall dispose of (i) 75% of their BC TELECOM Common Shares to MergeCo (free and clear of any encumbrances) in exchange for MergeCo Common Shares on the basis of the BC TELECOM Exchange Ratio and (ii) 25% of their BC TELECOM Common Shares to MergeCo (free and clear of any encumbrances) in exchange for MergeCo Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio;

3.2.2.2 BC TELECOM Taxable Exchange Shareholders shall dispose of (i) 75% of their BC TELECOM Common Shares to AcquisitionCo (free and clear of any encumbrances) in exchange for MergeCo Common Shares on the basis of the BC TELECOM exchange ratio and (ii) 25% of their BC TELECOM Common Shares to AcquisitionCo (free and clear of any encumbrances) in exchange for MergeCo Non-Voting Shares on the basis of the BC TELECOM Exchange Ratio;

3.2.2.3 upon the exchange referred to in this Section 3.2.2., each Holder of assigned BC TELECOM Common Shares shall cease to be a holder, shall have his or her name removed from the register of holders of BC TELECOM Common Shares and shall become a holder of the number of fully paid MergeCo Common Shares and MergeCo Non-Voting Shares to which he or she is entitled as a result of such exchange and such holder's name shall be added to the register of holders of MergeCo Common Shares and MergeCo Non-Voting Shares accordingly. MergeCo and AcquisitionCo shall be registered as the holders of the BC TELECOM Common Shares assigned to them pursuant to this Section 3.2.2 and shall be added to the register of holders of BC TELECOM Common Shares accordingly;

3.2.3 In consideration for the issuance by MergeCo of MergeCo Common Shares and MergeCo Non-Voting Shares to TELUS Taxable Exchange Shareholders and BC TELECOM Taxable Exchange Shareholders, as described in Sections 3.2.1.2. and 3.2.2.2., AcquisitionCo will issue 9,999,999 AcquisitionCo common shares to MergeCo.

3.2.4 MergeCo shall add to its paid-up capital in respect of the MergeCo Common Shares and MergeCo Non-Voting Shares issued an amount equal to the fair market value of the TELUS

Common Shares and BC TELECOM Common Shares exchanged in Sections 3.2.1 and 3.2.2 immediately prior to such exchanges as determined by the Board of Directors of MergeCo;

3.2.5 each of the then outstanding options under the TELUS Option Plans (other than options held by holders who have exercised their rights of dissent in accordance with Section 4.2 hereof and who are ultimately entitled to be paid the fair value for such options) will, without any further action on the part of any optionholder, be converted into an option to purchase (i) the number of MergeCo Common Shares determined by multiplying the number of TELUS Common Shares subject to such option under the TELUS Option Plans at the Effective Time (the "Outstanding TELUS Options") by 75% of the TELUS Exchange Ratio and (ii) the number of MergeCo Non-Voting Shares determined by multiplying the Outstanding TELUS Options by 25% of the TELUS Exchange Ratio; such options to be exercisable at an exercise price per MergeCo Common Share equal to the amount determined by dividing the exercise price per share of such option immediately prior to the Effective Time by the TELUS Exchange Ratio and at an exercise price per MergeCo Non-Voting Share equal to the amount determined by dividing the exercise price per share of such option immediately prior to the Effective Time by the TELUS Exchange Ratio; it being understood that if any such option is exercised such exercise shall be made for the number of MergeCo Common Shares together with the number of MergeCo Non-Voting Shares for each TELUS Common Share that TELUS Optionholder would have been entitled to receive and not separately for any class of MergeCo shares. If the foregoing calculation results in an exchanged option being exercisable for a fraction of a MergeCo Common Share or MergeCo Non-Voting Share, as the case may be, then the number of MergeCo Common Shares or MergeCo Non-Voting Shares subject to such option will be rounded down to the nearest whole number of shares, and the exercise price per whole MergeCo Common Share or MergeCo Non-Voting Share will be as determined above. The options under the TELUS Option Plan as so converted will, without any further action on the part of the optionholders, be further modified as necessary to effect such conversion; provided, however, the term, exercisability, vesting schedule, and all other terms and conditions of the options under the TELUS Option Plans will otherwise be unchanged by the provisions of this 3.2.5 and shall operate in accordance with their terms; and provided further that such conversion shall take place and be implemented on a basis that the difference between the fair market value of the TELUS Common Shares which are subject to the outstanding options and the amount payable upon the exercise of such outstanding options, determined immediately before such conversion, shall be at least equal to the difference between the fair market value of the MergeCo shares which are subject to the newly created options and the amount payable upon the exercise of such newly created options, determined immediately after such conversion. The obligations of TELUS under the TELUS Option Plans as so converted shall be assumed by MergeCo and MergeCo shall be substituted for TELUS as the sponsor of the TELUS Option Plans;

3.2.6 each of the then outstanding options under the BC TELECOM Option Plans (other than options held by holders who have exercised their rights of dissent in accordance with Section 4.1 hereof and who are ultimately entitled to be paid the fair value for such options) will, without any further action on the part of any optionholder, be converted into an option to purchase (i) the number of MergeCo Common Shares determined by multiplying the number of BC TELECOM Common Shares subject to such option under the BC TELECOM Option Plans at the Effective Time (the "Outstanding BC TELECOM Options") by 75% of the BC TELECOM Exchange Ratio and (ii) the number of MergeCo Non-Voting Shares determined by multiplying the Outstanding BC TELECOM Options by 25% of the BC TELECOM Exchange Ratio; such options to be exercisable at an exercise price per MergeCo Common Share equal to the exercise price per share of such option immediately prior to the Effective Time and at an exercise price per MergeCo Non-Voting Share equal to the exercise price per share of such option immediately prior to the Effective Time; it being understood that if any such option is exercised such exercise shall be made for the number of MergeCo Common Shares together with the number of MergeCo Non-Voting Shares for each BC TELECOM Common Share that BC TELECOM Optionholder would have been entitled to receive and not separately for any class of MergeCo

shares. If the foregoing calculation results in an exchanged option being exercisable for a fraction of a MergeCo Common Share or MergeCo Non-Voting Share, as the case may be, then the number of MergeCo Common Shares or MergeCo Non-Voting Shares subject to such option will be rounded down to the nearest whole number of shares, and the exercise price per whole MergeCo Common Share or MergeCo Non-Voting Share will be as determined above. The options under the BC TELECOM Option Plan as so converted will, without any further action on the part of the optionholders, be further modified as necessary to effect such conversion; provided, however, the term, exercisability, vesting schedule, and all other terms and conditions of the options under the BC TELECOM Option Plans will otherwise be unchanged by the provisions of this 3.2.6 and shall operate in accordance with their terms; and provided further that such conversion shall take place and be implemented on a basis that the difference between the fair market value of the BC TELECOM Common Shares which are subject to the outstanding options and the amount payable upon the exercise of such outstanding options, determined immediately before such conversion, shall be at least equal to the difference between the fair market value of the MergeCo shares which are subject to the newly created options and the amount payable upon the exercise of such newly created options, determined immediately after such conversion. The obligations of BC TELECOM under the BC TELECOM Option Plans as so converted shall be assumed by MergeCo and MergeCo shall be substituted for BC TELECOM as the sponsor of the BC TELECOM Option Plans;

3.2.7 The one MergeCo Common Share owned by BC TELECOM and the two MergeCo Common Shares owned by TELUS shall be cancelled;

3.2.8 AcquisitionCo shall be wound up and dissolved in accordance with subsection 88(1) of the Tax Act and the provisions of the CBCA and, in connection with and as a consequence of the wind up, all of the assets, rights and properties of AcquisitionCo, including the BC TELECOM Common Shares and the TELUS Common Shares, will be distributed, transferred and conveyed to MergeCo so that MergeCo shall be the registered and beneficial owner of all BC TELECOM Common Shares and TELUS Common Shares and all the liabilities and obligations of AcquisitionCo will be assumed by MergeCo;

3.2.9 BC TELECOM shall be wound up and dissolved in accordance with subsection 88(1) of the Tax Act and the provisions of the CBCA and, in connection with and as a consequence of the wind up, all of the assets, rights and properties of BC TELECOM will be assigned and transferred to MergeCo and all the liabilities and obligations of BC TELECOM will be assumed by MergeCo; and

3.2.10 the directors of MergeCo shall be replaced with those persons set forth in Exhibit A.

ARTICLE 4

RIGHTS OF DISSENT

4.1 Registered Holders of BC TELECOM Shares may exercise rights of dissent in connection with the Plan in the manner set forth in section 190 of the CBCA (as modified by the Interim Order, the Final Order and this Section 4.1) as if that section (as modified) was applicable to such Registered Holders. Registered Holders of BC TELECOM Shares who:

4.1.1 are ultimately entitled to be paid fair value for their BC TELECOM Shares shall be deemed to have transferred their BC TELECOM Shares to BC TELECOM for cancellation at the Effective Time prior to any of the steps described in Section 3.2; or

4.1.2 are ultimately not entitled to be paid fair value, for any reason, for their BC TELECOM Shares shall be deemed to have participated in the Plan of Arrangement on the same basis as any non-dissenting Registered Holder as at and from the Effective Time and shall receive MergeCo Common Shares and MergeCo Non-Voting Shares or options on MergeCo Common Shares and MergeCo Non-Voting Shares, as the case may be, on the basis set forth in Article 3.

4.2 Registered Holders of TELUS Shares may exercise rights of dissent in connection with the Plan in the manner set forth in section 184 of the ABCA (as modified by the Interim Order, the Final Order and this Section 4.2) as if that section (as modified) was applicable to such Registered Holders. Registered Holders of TELUS Shares who:

4.2.1 are ultimately entitled to be paid fair value for their TELUS Shares shall be deemed to have transferred their TELUS Shares to TELUS for cancellation at the Effective Time prior to any of the steps described in Section 3.2; or

4.2.2 are ultimately not entitled to be paid fair value, for any reason, for their TELUS Shares shall be deemed to have participated in the Plan of Arrangement on the same basis as any non-dissenting Registered Holder as at and from the Effective Time and shall receive MergeCo Common Shares and MergeCo Non-Voting Shares or options on MergeCo Common Shares or MergeCo Non-Voting Shares, as the case may be, on the basis set forth in Article 3.

4.3 In no circumstances shall any person be required to recognize a person exercising the rights set out in Section 4.1 or 4.2 as Registered Holders or Holders of BC TELECOM Shares or TELUS Shares, as the case may be, except following the circumstances set forth in Section 4.1.2 or 4.2.2, if applicable.

ARTICLE 5

CERTIFICATES; FRACTIONAL SECURITIES

5.1 From and after the Effective Time, certificates formerly representing BC TELECOM Common Shares and certificates formerly representing TELUS Common Shares shall cease to represent such shares and shall represent only the right to receive MergeCo Certificates representing MergeCo Common Shares and MergeCo Non-Voting Shares, as the case may be, as determined pursuant to Sections 3.2.1 and 3.2.2, in accordance with the provisions of Section 5.3 hereof.

5.2 Holders of BC TELECOM Common Shares and TELUS Common Shares at the Effective Time shall be entitled to receive the certificates representing the MergeCo Common Shares and MergeCo Non-Voting Shares as determined pursuant to Sections 3.2.1 and 3.2.2 to which such Holders are entitled pursuant to the provisions hereof as soon as practicable after the Effective Date upon delivery to MergeCo or the Depository of a duly completed Letter of Transmittal and the certificates formerly representing BC TELECOM Common Shares or TELUS Common Shares, as the case may be. The Depository shall register and make available or send certificates representing MergeCo Common Shares and MergeCo Non-Voting Shares, as directed in each properly completed Letter of Transmittal. Notwithstanding any of the other provisions hereof, any certificate which immediately prior to the Effective Time represented outstanding BC TELECOM Common Shares or TELUS Common Shares, as the case may be, that were exchanged pursuant to Sections 3.2.1 and 3.2.2 shall cease to represent a claim or interest of any kind or nature against BC TELECOM or TELUS, as the case may be, and, if it has not been surrendered with all other instruments required by this Section 5.3 on or prior to the sixth anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature against MergeCo. In such circumstances, the Person ultimately entitled to any certificate hereunder shall be deemed to have surrendered such entitlement to MergeCo, as applicable, together with all entitlement to dividends, distributions and cash for fractional interest thereon held for such former Holder for no consideration.

5.3 No certificates or scrip representing fractional MergeCo Common Shares or MergeCo Non-Voting Shares shall be issued and no dividend, stock split or other change in the capital structure of MergeCo shall relate to any such fractional security and such fractional interests shall not entitle the owner thereof to vote or to exercise any rights as a security holder of MergeCo. In lieu of the issue of certificates representing fractional MergeCo Common Shares or MergeCo Non-Voting Shares, each person except participants in the BC TELECOM Dividend Reinvestment and Share Purchase Plan, the BC TELECOM Employee Share Purchase Plan, the TELUS Dividend Reinvestment and Share Purchase Plan and the TELUS Employee Share Purchase Plan (together the "Plans") entitled to a fractional interest in a MergeCo Common Share or MergeCo Non-Voting Share will receive from MergeCo an amount of cash (rounded to the nearest whole cent) equal to the product obtained when such fraction is multiplied by the weighted average trading price for MergeCo Common Shares or MergeCo Non-Voting Shares, as the case may be, on The Toronto Stock Exchange (the

"Exchange") for the first three trading days on which the MergeCo Common Shares and MergeCo Non-Voting Shares are traded on an issued basis following the Effective Date. Such amounts to be paid at the time specified in Section 5.2. Participants in the Plans as of the Effective Date, shall have their interests, including fractional interests, recorded in their accounts on an uncertificated basis.

ARTICLE 6

GENERAL

6.1 Effective Time

No portion of this Plan of Arrangement shall take effect with respect to any Party or Person until the Effective Time.

6.2 Paramountcy

From and after the Effective Time (i) this Plan of Arrangement shall take precedence and priority over any and all securities issued prior to the Effective Time; (ii) the rights and obligations of the Registered Holders, Holders, any trustee and transfer agent therefor and the Parties shall be solely as provided for in this Plan of Arrangement and (iii) all actions, causes of action, claims or proceedings (actual or contingent, and whether or not previously asserted) based on or in any way relating to any securities shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

6.3 Plan of Arrangement Amendment

The Parties reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time provided that any such amendment, modification or supplement must be contained in a written document which is (i) agreed to by the Parties pursuant to the Arrangement Agreement, (ii) filed with the applicable Court and, if made following the Meetings, approved by the applicable Court and (iii) if so required, communicated to Shareholders in the manner required by the applicable Court.

Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Parties at any time prior to or at the Meetings, with or without any prior notice or communication, and if so proposed and accepted by the persons voting at the Meetings (other than as may be required under the Interim Orders), shall become part of this Plan of Arrangement for all purposes.

Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the applicable Court following the Meetings shall be effective only if it is agreed to by the Parties pursuant to the Arrangement Agreement.

Any amendment, modification or supplement to this Plan of Arrangement may be made unilaterally by the Parties after the Effective Date without the approval of the Shareholders, provided that (i) it is agreed to by the Parties pursuant to the Arrangement Agreement; and (ii) it concerns a matter which, in the reasonable opinion of the Parties, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of any class of the Shareholders.

Notwithstanding the foregoing, by instrument in writing BC TELECOM and TELUS may up to, but not after, the termination of the Meeting, add to Exhibit A hereto, the names of the directors of MergeCo as agreed to in the manner provided in the Arrangement Agreement.

6.4 Termination

At any time up until the time the Final Order is made, the Parties may mutually determine not to proceed with this Plan of Arrangement, or to terminate this Plan of Arrangement, notwithstanding any prior approvals given at any of the Meetings. In addition to the foregoing, this Plan of Arrangement shall automatically, without notice, terminate immediately and be of no further force or effect, upon the termination of the Arrangement Agreement in accordance with its terms.

6.5 Further Assurances

Notwithstanding that the transactions and events set out in this Plan of Arrangement shall occur and be deemed to occur in the order set out herein without any additional act or formality, each of the persons affected hereby shall make, do and execute, or cause to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by the Parties in order to better implement this Plan of Arrangement.

6.6 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall refer to this Plan of Arrangement and may, subject as hereinafter provided, be made or given by the person making or giving it or by any agent of such Person authorized for that purpose by personal delivery, by prepaid mail or by telecopier addressed to the respective parties as follows:

(i) if to BC TELECOM:

BC TELECOM Inc.
21st Floor
3777 Kingsway
Burnaby, B.C.
V5H 3Z7

Attention: Corporate Secretary
Fax: (604) 432-5681

if to TELUS:

TELUS Corporation
10020 100th St. N.W.
Edmonton, Alberta
T5J 0N5

Attention: Corporate Secretary
Fax: (403) 493-6542

if to MergeCo:

BCT.TELUS
Communications Inc.
c/o BC TELECOM Inc.
21st Floor
3777 Kingsway
Burnaby, B.C.
V5H 3Z7

Attention: Corporate Secretary
Fax: (604) 432-5681

AND:

BCT.TELUS
Communications Inc.
c/o TELUS Corporation
10020 - 100th Street N.W.
Edmonton, Alberta
T5J 0N5

Attention: Corporate Secretary
Fax: (403) 493-6542

(ii) if to a Shareholder:

to the last known address for such Shareholder as shown on the books maintained by the transfer agent of each Party;

or to such other address as any such Person may from time to time notify the others in accordance with this Section. In the event of any strike, lock-out or other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by telecopier, and any notice or other communication given or made by prepaid mail prior to the third (3rd) business day immediately preceding the commencement of such interruptions shall be deemed to have been given or made. All such notices and communications shall be deemed to have been received, in the case of notice by telecopier or by delivery, on the day of such transmission or delivery and, in the case of notice mailed as aforesaid, on the third (3rd) business day following the date on which such notice or other communication is mailed. Accidental failure or omission by the Parties to give a notice contemplated hereunder to any particular Holder, or events beyond the reasonable control of the Parties (including inability to utilize postal services and/or transmission interruptions) shall not invalidate the subject matter for which the notice was intended, this Plan of Arrangement or any action taken by any Person pursuant to this Plan of Arrangement, but if any such failure or omission is brought to the attention of the Parties, it shall be rectified by the Parties by the method and in the time most reasonably practicable in the circumstances.

EXHIBIT A

DIRECTORS OF BCT.TELUS COMMUNICATIONS INC.

R. John Butler, Q.C.

Brian A. Canfield

Pierre Choquette

G.N. (Mel) Cooper, C.M., O.B.C.

David L. Emerson

Iain J. Harris

Norm Kimball

Richard J. LeLacheur

Michael T. Masin

Harold P. Milavsky, F.C.A.

Walter B. O'Donoghue, Q.C.

George K. Petty

Fares F. Salloum

Geraldine B. Sinclair

Ronald P. Triffo

Donald P. Woodley

SCHEDULE B

REPRESENTATIONS AND WARRANTIES OF BC TELECOM

1. Organization.

Each of BC TELECOM and its Material Subsidiaries has been duly incorporated or formed under all applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares in the capital of and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by BC TELECOM are, except as disclosed in writing to TELUS or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned, (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries.

2. Capitalization.

The authorized capital of BC TELECOM consists of: (a) an unlimited number of BC TELECOM Common Shares and (b) an unlimited number of preferred shares issuable in series. As of September 30, 1998 there were 124,241,266 BC TELECOM Common Shares outstanding and 3,793,275 BC TELECOM Common Shares were reserved, in the aggregate, for issuance in respect of the following: the BC TELECOM Dividend Reinvestment and Share Purchase Plan, the BC TELECOM Long Term Share Option Plan ("LISOP") and the BC TELECOM Share Option Plan ("SOP"). Except as described in the immediately preceding sentence and other than pursuant to the rights under the LISOP, the SOP and the BC TELECOM Dividend Reinvestment Plan, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating BC TELECOM or any Subsidiary to issue or sell any shares of BC TELECOM or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of BC TELECOM, any Subsidiary or any other person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of BC TELECOM or any Subsidiary other than under the Directors Share Compensation Plan or the Officer's Share Compensation Plan. There have been no BC TELECOM Common Shares issued since September 30, 1998, other than pursuant to the exercise of stock option entitlements.

3. Authority.

BC TELECOM has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by BC TELECOM and the consummation by BC TELECOM of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of BC TELECOM and, subject to shareholder approval, no other corporate proceedings on the part of BC TELECOM are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by BC TELECOM and constitutes a valid and binding obligation of BC TELECOM, enforceable against BC TELECOM in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to TELUS on or prior to the date hereof, the execution and delivery by BC TELECOM of this Agreement and performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

(a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:

  (i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any person holding an ownership interest in any Material Subsidiary;

  (ii) any law, regulation, order, judgment or decree; or

(iii) any contract, agreement, license, franchise or permit to which BC TELECOM or any Material Subsidiary is bound or is subject or is the beneficiary;

(b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or

(c) result in the imposition of any Encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of BC TELECOM or any Material Subsidiary to carry on the business of BC TELECOM or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on BC TELECOM.

4. Absence of Changes.

Since December 31, 1997, and except as has been previously disclosed in writing to the other Party hereto or has been publicly disclosed prior to the date hereof in any document filed with the British Columbia Securities Commission (the "Securities Authorities") (i) BC TELECOM has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to BC TELECOM have been incurred, (iii) there has not been any material change in the affairs of BC TELECOM as defined under the *Securities Act* (British Columbia) financial condition, results of operations or business of BC TELECOM (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

(a) Other than as disclosed in writing to TELUS on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Annual Meeting of BC TELECOM held in 1998, BC TELECOM is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive of BC TELECOM.

(b) Other than as disclosed in writing to TELUS on or prior to the date hereof, neither BC TELECOM nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either BC TELECOM or any Material Subsidiary that would individually or in the aggregate have a material adverse effect.

(c) Other than as disclosed in writing to TELUS on or prior to the date hereof, neither BC TELECOM nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other tort claim, actual or threatened, or any litigation, actual or threatened, relating to employment or termination of employment of employees or independent contractors other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect.

(d) Other than as disclosed in writing to TELUS on or prior to the date hereof or are not material, BC TELECOM and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect.

6. Disclosure.

BC TELECOM has publicly disclosed in documents filed with the Securities Authorities or disclosed to TELUS in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could individually or in the aggregate materially and adversely affect the business, operations, assets, capitalization, financial condition, prospects, rights or liabilities of or relating to BC TELECOM and its Material Subsidiaries, taken as a whole.

7. Financial Statements.

The audited consolidated balance sheet and related consolidated statements of earnings, changes in financial position and contributed surplus and retained earnings of BC TELECOM for the fiscal year ending December 31, 1997, and the audited consolidated balance sheet and related consolidated statements of earnings, changes in financial position and retained earnings for the year ended December 31, 1996, as contained in BC TELECOM's 1997 Annual Report, and the unaudited interim consolidated financial statements for the six month period ended June 30, 1998, were prepared in accordance with generally accepted accounting principles in Canada consistently applied, except as noted in such reports, and fairly present the consolidated financial condition of BC TELECOM at the respective dates indicated and the results of operations of BC TELECOM (on a consolidated basis) for the periods covered.

8. Books and Records.

The corporate records and minute books of BC TELECOM and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to TELUS prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of BC TELECOM, threatened against or relating to BC TELECOM or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on BC TELECOM and its Material Subsidiaries, taken as a whole, or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is BC TELECOM aware of any basis for any such claim, action, proceeding or investigation. Neither BC TELECOM nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of BC TELECOM and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not individually or in the aggregate have a material adverse effect on BC TELECOM. Except as has been disclosed in writing to TELUS prior to the date hereof, neither BC TELECOM nor any Material Subsidiary is aware of, or is subject to:

(i) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or

(ii) any demand or notice with respect to the breach of any Environmental Laws applicable to BC TELECOM or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on BC TELECOM.

11. Insurance.

Policies of insurance in force as of the date hereof naming BC TELECOM as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of BC TELECOM

and the Material Subsidiaries for which, having regard to the nature of such risk and the relative cost of obtaining insurance, it is in the opinion of BC TELECOM acting reasonably to seek such insurances rather than provide for self insurance. All such policies of insurance shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect.

12. Tax Matters.

(a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of BC TELECOM or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by BC TELECOM to TELUS prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by BC TELECOM or any Material Subsidiaries with respect to items or periods covered by such Returns.

(b) **Tax Reserves.** BC TELECOM has paid or provided adequate accruals in its consolidated financial statements for the year ended dated December 31, 1997 and for the six month period ended June 30, 1998 for Taxes assessed, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.

(c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to TELUS, no deficiencies exist or have been asserted with respect to Taxes of BC TELECOM or any Material Subsidiary, neither BC TELECOM nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against BC TELECOM or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to BC TELECOM or the Arrangement.

13. Pension and Employee Benefits.

(a) Other than as disclosed in writing to TELUS on or prior to the date hereof, BC TELECOM has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of BC TELECOM and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon BC TELECOM or any of its Material Subsidiaries (collectively referred to as the "BC TELECOM Plans") and all BC TELECOM Plans are fully funded and in good standing with such regulatory authorities as may be applicable.

(b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any BC TELECOM Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or threatened in respect of any of the BC TELECOM Plans or their assets which individually or in the aggregate would have a material adverse effect.

14. Property.

Other than as disclosed in writing to TELUS on or prior to the date hereof, BC TELECOM and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or authorities permitting the use of land by BC TELECOM and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party

hereto and except for such failure of title that would individually or in the aggregate not have a material adverse effect on BC TELECOM.

15. Reports.

BC TELECOM has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1998 (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the "BC TELECOM Documents"). The BC TELECOM Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation. BC TELECOM has not filed any confidential material change report with any Securities Authorities which at the date hereof remains confidential.

16. Compliance with Laws.

Since December 31, 1997, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, BC TELECOM and its Material Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not individually or in the aggregate have a material adverse effect on BC TELECOM.

17. Licenses, etc.

Except as disclosed in writing to TELUS on or prior to the date hereof, BC TELECOM and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, costs, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not individually or in the aggregate have a material adverse effect on BC TELECOM.

18. Certain Contracts.

Except as disclosed in writing to TELUS on or prior to the date hereof, neither BC TELECOM nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of BC TELECOM or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on BC TELECOM.

19. Year 2000.

BC TELECOM has taken and is taking all steps as are reasonable and appropriate to ascertain the extent of, quantify and successfully address business and financial risks facing BC TELECOM as a result of what is commonly referred to as the "Year 2000 problem" (i.e. the inability of computers, as well as embedded microchips in non-computing devices, to perform properly date-sensitive functions involving certain dates prior to and after December 31, 1999), including risks resulting from the failure of key customers and suppliers of BC TELECOM to address successfully the Year 2000 problem, and BC TELECOM has adopted and is implementing a Year 2000 work plan and is and will be on a timely basis taking all reasonable steps to minimize the impact of the Year 2000 problem.

20. Disposition of Assets.

Neither BC TELECOM nor any Material Subsidiary have disposed of any material assets in contemplation of the Arrangement, other than dispositions between BC TELECOM and any Material Subsidiary, nor do BC TELECOM nor any Material Subsidiary have any current plans to dispose of any material asset or property, other than a disposition between BC TELECOM and any Material Subsidiary or a disposition in the ordinary course of business.

SCHEDULE C

REPRESENTATIONS AND WARRANTIES OF TELUS

1. Organization.

Each of TELUS and its Material Subsidiaries has been duly incorporated or formed under all applicable Laws, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares in the capital of and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by TELUS are, except as disclosed in writing to BC TELECOM or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholders, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned, (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries.

2. Capitalization.

The authorized capital of TELUS consists of: (a) an unlimited number of TELUS Common Shares, and (b) an unlimited number of First Preferred Shares, issuable in series, and (c) an unlimited number of Second Preferred Shares, issuable in series. As of September 30, 1998 there were 144,512,470 TELUS Common Shares outstanding and 17,021,038 TELUS Common Shares were reserved, in the aggregate, for issuance in respect of the following: the TELUS Stock Option Plan and the TELUS Directors Stock Option Plan (the "TELUS Stock Option Plans"), the TELUS Employee Share Purchase Plan ("TELUS ESPP"), the TELUS Non-Employee Directors Share Compensation Plan ("TELUS DSCP"), the TELUS Dividend Reinvestment and Share Purchase Plan ("TELUS DRIP") and the TELUS Performance Share Unit Plan ("TELUS PSUP") of which 1,920,320 TELUS Common Shares are subject to outstanding stock options. Except as described in the immediately preceding sentence and other than pursuant to the rights under the TELUS Stock Option Plans, TELUS ESPP, TELUS DSCP, TELUS DRIP and TELUS PSUP which are not exercisable, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating TELUS or any Subsidiary to issue or sell any shares of TELUS or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of TELUS, any Subsidiary or any other person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of TELUS or the Subsidiary. There have been no TELUS Common Shares issued since September 30, 1998 other than pursuant to the exercise of stock option entitlements with respect to the TELUS DSCP.

3. Authority.

TELUS has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by TELUS and the consummation by TELUS of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of TELUS and, subject to shareholder approval, no other corporate proceedings on the part of TELUS are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by TELUS and constitutes a valid and binding obligation of TELUS, enforceable against TELUS in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to BC TELECOM on or prior to the

date hereof, the execution and delivery by TELUS of this Agreement and performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

(a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:

(i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any Person holding an ownership interest in any Material Subsidiary;

(ii) any law, regulation, order, judgment or decree; or

(iii) any contract, agreement, license, franchise or permit to which TELUS or any Material Subsidiary is bound or is subject or is the beneficiary;

(b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or

(c) result in the imposition of any Encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of TELUS or any Material Subsidiary to carry on the business of TELUS or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on TELUS.

4. Absence of Changes.

Since December 31, 1997, and except as has been previously disclosed in writing to the other Party hereto or has been publicly disclosed prior to the date hereof in any document filed with the Alberta Securities Commission (the "Securities Authorities") (i) TELUS has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to TELUS have been incurred, (iii) there has not been any material change in the affairs of TELUS as defined under the *Securities Act* (Alberta) financial condition, results of operations or business of TELUS (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

(a) Other than as disclosed in writing to BC TELECOM on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Annual Meeting of TELUS held in 1998, TELUS is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive of TELUS.

(b) Other than as disclosed in writing to BC TELECOM on or prior to the date hereof, neither TELUS nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either TELUS or any Material Subsidiary that would individually or in the aggregate have a material adverse effect.

(c) Other than as disclosed in writing to BC TELECOM on or prior to the date hereof, neither TELUS nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other tort claim, actual or threatened, or any litigation, actual or threatened, relating to employment or termination of employment of employees or independent contractors other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect.

(d) Other than as disclosed in writing to BC TELECOM on or prior to the date hereof or are not material, TELUS and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect.

6. Disclosure.

TELUS has publicly disclosed in documents filed with the Securities Authorities or disclosed to BC TELECOM in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could individually or in the aggregate materially and adversely affect the business, operations, assets, capitalization, financial condition, prospects, rights or liabilities of or relating to TELUS and its Material Subsidiaries, taken as a whole.

7. Financial Statements.

The audited consolidated balance sheet and related consolidated statements of income and retained earnings and changes in financial position of TELUS for the fiscal years ending December 31, 1997 and 1996, all as contained in TELUS's 1997 Annual Report, and the unaudited interim consolidated statements for the six month period ended June 30, 1998, were prepared in accordance with generally accepted accounting principles in Canada consistently applied, except where noted in such reports, and fairly present the consolidated financial condition of TELUS at the respective dates indicated and the results of operations of TELUS (on a consolidated basis) for the periods covered.

8. Books and Records.

The corporate records and minute books of TELUS and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to BC TELECOM prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of TELUS, threatened against or relating to TELUS or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on TELUS and its Material Subsidiaries, taken as a whole, or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is TELUS aware of any basis for any such claim, action, proceeding or investigation. Neither TELUS nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of TELUS and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not individually or in the aggregate have a material adverse effect on TELUS. Except as has been disclosed in writing to BC TELECOM prior to the date hereof, neither TELUS nor any Material Subsidiary is aware of, or is subject to:

(i) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or

(ii) any demand or notice with respect to the breach of any Environmental Laws applicable to TELUS or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on TELUS.

11. Insurance.

Policies of insurance in force as of the date hereof naming TELUS as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of TELUS and the Material Subsidiaries for which, having regard to the nature of such risk and the relative costs of obtaining insurance, it is in the opinion of TELUS acting reasonably to seek such insurances rather than provide for self insurance. All such policies of insurance shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect.

12. Tax Matters.

(a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of TELUS or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by TELUS to BC TELECOM prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by TELUS or any Material Subsidiaries with respect to items or periods covered by such Returns.

(b) **Tax Reserves.** TELUS has paid or provided adequate accruals in its consolidated financial statements for the year ended dated December 31, 1997 and for the six month period ended June 30, 1998 for Taxes assessed, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.

(c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to BC TELECOM, no deficiencies exist or have been asserted with respect to Taxes of TELUS or any Material Subsidiary, neither TELUS nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against TELUS or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to TELUS or the Arrangement.

13. Pension and Employee Benefits.

(a) Other than as disclosed in writing to BC TELECOM on or prior to the date hereof, TELUS has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of TELUS and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon TELUS or any of its Material Subsidiaries (collectively referred to as the "TELUS Plans") and all TELUS Plans are fully funded and in good standing with such regulatory authorities as may be applicable.

(b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any TELUS Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or threatened in respect of any of the TELUS Plans or their assets which individually or in the aggregate would have a material adverse effect.

14. Property.

Other than as disclosed in writing to BC TELECOM on or prior to the date hereof, TELUS and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or

authorities permitting the use of land by TELUS and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party hereto and except for such failure of title that would individually or in the aggregate not have a material adverse effect on TELUS.

15. Reports.

TELUS has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1998 (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the "TELUS Documents"). The TELUS Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation. TELUS has not filed any confidential material change report with any Securities Authorities which at the date hereof remains confidential.

16. Compliance with Laws.

Since December 31, 1997, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, TELUS and its Material Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not individually or in the aggregate have a material adverse effect on TELUS.

17. Licenses, etc.

Except as disclosed in writing to BC TELECOM on or prior to the date hereof, TELUS and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, costs, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not individually or in the aggregate have a material adverse effect on TELUS.

18. Certain Contracts.

Except as disclosed in writing to BC TELECOM on or prior to the date hereof, neither TELUS nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of TELUS or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on TELUS.

19. Year 2000.

TELUS has taken and is taking all steps as are reasonable and appropriate to ascertain the extent of, quantify and successfully address business and financial risks facing TELUS as a result of what is commonly referred to as the "Year 2000 problem" (i.e. the inability of computers, as well as embedded microchips in non-computing devices, to perform properly date-sensitive functions involving certain dates prior to and after December 31, 1999), including risks resulting from the failure of key customers and suppliers of TELUS to address successfully the Year 2000 problem, and TELUS has adopted and is implementing a Year 2000 work plan and is and will be on a timely basis taking all reasonable steps to minimize the impact of the Year 2000 problem.

20. Disposition of Assets.

Neither TELUS nor any Material Subsidiary have disposed of any material assets in contemplation of the Arrangement, other than dispositions between TELUS and any Material Subsidiary, nor do TELUS nor any Material Subsidiary have any current plans to dispose of any material asset or property, other than a disposition between TELUS and any Material Subsidiary or a disposition in the ordinary course of business.

SCHEDULE D

GOVERNANCE ARRANGEMENTS

1. Board of Directors

The Board of Directors of BCT.TELUS Communications Inc. from the Effective Date shall be divided between persons who were directors of TELUS prior to the Effective Date and persons who were directors of BC TELECOM prior to the Effective Date with up to four Directors being nominees of GTE. To the extent possible, depending on GTE's nominees, this division will be equal. The Board of Directors composition will be determined by a committee comprised of two members from BC TELECOM's Board and two members from the TELUS Board, who will review the existing members for their respective boards and make their determinations based upon an analysis of the needs of BCT.TELUS Communications Inc., after the Effective Date, and the skills that will be brought to the Board by the members. The determinations will be made before the date of the respective Shareholder Meetings.

2. The following would be the senior appointments of BCT.TELUS Communications Inc., from the Effective Date:

Chairman:	Brian A. Canfield
President and CEO:	George K. Petty

3. Committees

The following committees of the Board of Directors of BCT.TELUS Communications Inc., after the Effective Date, will be established with the following as the chairs thereof:

Corporate Governance Committee:	Iain J. Harris, Chair
Strategic Policy Committee:	Ronald P. Triffo, Chair
Audit Committee:	Harold P. Milavsky, Chair
Human Resources Committee:	Michael T. Masin, Chair
Pension Committee:	R. John Butler, Chair

4. Head Office

Burnaby and Edmonton until otherwise determined by the Board of Directors of BCT.TELUS Communications Inc.

5. Name

BCT.TELUS Communications Inc.

6. Transitional Arrangements

Subject to compliance with any laws as required under the *Competition Act*:

(a) during the period from announcement of the transaction until its implementation following approval by shareholders and by the Courts, an *ad hoc* Committee of TELUS and BC TELECOM to be composed of two directors from each of BC TELECOM and TELUS (the "Ad Hoc Committee") will be established to work with the persons designated to be Chairman and President and CEO of BCT.TELUS Communications Inc. to determine the senior officers of BCT.TELUS Communications Inc. and management issues of BCT.TELUS Communications Inc., the transitional matters relating to any retention or termination of the employment of any executives of TELUS or BC TELECOM and all issues relating thereto;

(b) during the period from announcement of the transaction until its implementation following approval by the shareholders and by the Courts, an *ad hoc* Strategic Committee composed of members of the respective boards and management of BC TELECOM and TELUS, as agreed to, (the "Ad Hoc Strategic Committee") will be established and will determine and arrive at the transitional operational and strategic plan for BCT.TELUS Communications Inc., including management decisions to be implemented immediately upon completion of the transaction. The basic strategic and tactical decisions necessary so that BCT.TELUS Communications Inc. will become an effective business operation as quickly as possible will be overseen by the Ad Hoc Strategic Committee working together and with the CEO's of TELUS and BC TELECOM and the President and CEO of BCT.TELUS Communications Inc. The CEOs will carry general responsibility for transitional arrangements within the framework established by the *ad hoc* committees; and

(c) It should be remembered that this transitional period is expected to last until completion of the Arrangement or perhaps even longer. During the time prior to the Effective Time, the businesses of TELUS and BC TELECOM must continue to be operated separately, but decisions must be made as to their combined operations following completion of the transaction.

SCHEDULE E

MEMORANDUM AND ARTICLES OF BCT.TELUS COMMUNICATIONS INC.

MEMORANDUM

"COMPANY ACT"

MEMORANDUM OF

BCT.TELUS Communications Inc.

1. The name of the Company is BCT.TELUS Communications Inc.
2. The authorized capital of the Company consists of 4,000,000,000 shares divided into:
   (a) 1,000,000,000 Common Shares without par value;
   (b) 1,000,000,000 Non-Voting Shares without par value;
   (c) 1,000,000,000 First Preferred Shares without par value; and
   (d) 1,000,000,000 Second Preferred Shares without par value.
3. The Common Shares without par value, the Non-Voting Shares without par value, the First Preferred Shares without par value and the Second Preferred Shares without par value shall have attached thereto the special rights and restrictions set forth in the Articles of the Company.

ARTICLES

of

BCT.TELUS COMMUNICATIONS INC.

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PROVINCE OF BRITISH COLUMBIA
COMPANY ACT

ARTICLES
OF

BCT.TELUS Communications Inc.

PART 1

INTERPRETATION

1.1. Except as expressly defined in Section 1.2, the meaning of any words or phrases defined in the *Company Act* shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

1.2. In these Articles, unless there is something in the subject or context inconsistent therewith:

"**Board**" and "**the Directors**" or "**the directors**" mean the Directors of the Company for the time being;

"***Company Act***" means the *Company Act* of the Province of British Columbia as from time to time enacted and all amendments thereto and includes the regulations made pursuant thereto;

"**Effective Date**" means the date on which the Plan of Arrangement involving BC TELECOM Inc. and TELUS Corporation becomes effective which Plan of Arrangement will be filed at the registered office of the Company;

"**month**" means calendar month;

"**registered owner**" or "**registered holder**" when used with respect to a share in the authorized capital of the Company means the person registered in the register of members in respect of such share;

"**registrar**" means the Registrar of Companies for the Province of British Columbia or other authorized person performing his or her duties as Registrar under the *Company Act*;

"**seal**" means the common seal of the Company;

"**special resolution**" means a resolution passed by a majority of not less than ¾ of votes cast by those members of the Company who, being entitled to do so, vote in person or by proxy at a general meeting of the Company to approve any actions as required in these Articles or contemplated by Section 37, 103, 126, 207, 221, 223, 233, 248, 252, 267 or 289(1) of the *Company Act* (as at September 30, 1998);

"**Telecommunication Regulations**" means the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act, as amended from time to time;

"**Telecommunications Act**" means the *Telecommunications Act* (Canada), as amended from time to time.

Expressions referring to writing shall be construed as including references to printing, lithography, typewriting, photography and other modes of representing or reproducing words in a visible form.

Words importing the singular include the plural and vice versa; and words importing male persons include female persons and words importing persons shall include corporations.

1.3. The Rules of Construction contained in the *Interpretation Act* shall apply, mutatis mutandis, to the interpretation of these Articles.

PART 2

SHARES AND SHARE CERTIFICATES

2.1. Every member is entitled, without charge, to one certificate representing the share or shares of each class held by him; provided that, in respect of a share or shares held jointly by several persons, the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint registered holders or to his or her duly authorized agent shall be sufficient delivery to all; and provided

further that the Company shall not be bound to issue certificates representing redeemable shares, if such shares are to be redeemed within one month of the date on which they were allotted. Any share certificate may be sent through the mail by registered prepaid mail to the member entitled thereto, and neither the Company nor any transfer agent shall be liable for any loss occasioned to the member owing to any such share certificate so sent being lost in the mail or stolen.

2.2. If a share certificate:

(i) is worn out or defaced, the Directors shall, upon production to them of the said certificate and upon such other terms, if any, as they may think fit, order the said certificate to be cancelled and shall issue a new certificate in lieu thereof;

(ii) is lost, stolen or destroyed, then, upon proof thereof to the satisfaction of the Directors and upon such indemnity, if any, as the Directors deem adequate being given, a new share certificate in lieu thereof shall be issued to the person entitled to such lost, stolen or destroyed certificate; or

(iii) represents more than one share and the registered owner thereof surrenders it to the Company with a written request that the Company issue in his or her name two or more certificates each representing a specified number of shares and in the aggregate representing the same number of shares as the certificate so surrendered, the Company shall cancel the certificate so surrendered and issue in lieu thereof certificates in accordance with such request.

Such sum, not exceeding the amount specified in the *Company Act*, as the Directors may from time to time fix, shall be paid to the Company for each certificate to be issued under this Article.

2.3. Every share certificate shall be signed manually by at least one officer or Director of the Company, or by or on behalf of a registrar, branch registrar, transfer agent or branch transfer agent of the Company and any additional signatures may be printed or otherwise mechanically reproduced and, in such event, a certificate so signed is as valid as if signed manually, notwithstanding that any person whose signature is so printed or mechanically reproduced shall have ceased to hold the office that he or she is stated on such certificate to hold at the date of the issue of the share certificate.

2.4. Except as required by law, statute or these Articles, no person shall be recognized by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or in any fractional part of a share or (except only as by law, statute or these Articles provided or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof by its registered holder.

PART 3

ISSUE OF SHARES

3.1. The shares shall be under the control of the Directors who may, subject to the rights of the holders of the shares of the Company for the time being outstanding, issue, allot, sell or otherwise dispose of, and/or grant options on or otherwise deal in, shares authorized but not outstanding, and outstanding shares held by the Company, at such times, to such persons (including Directors), in such manner, upon such terms and conditions, and at such price or for such consideration, as they, in their absolute discretion, may determine.

3.2. Subject to the provisions of the *Company Act*, the Company, or the Directors on behalf of the Company, may pay a commission or allow a discount to any person in consideration of his or her subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the Company, or procuring or agreeing to procure subscriptions, whether absolutely or conditionally, for any such shares, provided that, if the Company is not a specially limited company, the rate of the commission and discount shall not in the aggregate exceed 25 per centum of the amount of the subscription price of such shares.

3.3. Except as otherwise permitted by the *Company Act*, no share may be issued until it is fully paid and the Company shall have received the full consideration therefor in cash, property or past services actually performed for the Company. For the purpose of this Article:

(i) the value of property or services shall be the value determined by the Directors by resolution to be, in all circumstances of the transaction, a fair market value; and

(ii) the full consideration received for a share issued by way of dividend shall be the amount declared by the Directors to be the amount of the dividend.

PART 4

SHARE REGISTERS

4.1. The Company shall keep or cause to be kept a register of members, a register of transfers and a register of allotments within British Columbia, all as required by the *Company Act*, and may combine one or more of such registers. A separate register of members, register of transfers and register of allotments shall be kept in respect of each class or series of shares of the Company. The Directors on behalf of the Company may appoint a trust company to keep the register of members, register of transfers and register of allotments or, if there is more than one class or series of shares issued, the Directors may appoint a trust company, which need not be the same trust company, to keep the register of members, the register of transfers and the register of allotments for each class or series of shares. The Directors on behalf of the Company may also appoint one or more trust companies, including the trust company which keeps the said registers of its shares or of a class or series thereof, as transfer agent for its shares or such class or series thereof, as the case may be, and the same or another trust company or companies as registrar for its shares or such class or series thereof, as the case may be. The Directors may terminate the appointment of any such trust company at any time and may appoint another trust company in its place.

4.2. Unless prohibited by the *Company Act*, the Company may keep or cause to be kept one or more branch registers of members at such place or places as the Directors may from time to time determine.

4.3. The Company shall not at any time close its register of members.

PART 5

TRANSFER AND TRANSMISSION OF SHARES

5.1. Subject to the provisions of the Memorandum and of these Articles that may be applicable, any member may transfer any of his or her shares by instrument in writing executed by or on behalf of such member and delivered to the Company or its transfer agent. The instrument of transfer of any share of the Company shall be in the form, if any, on the back of the Company's share certificates or in such other form as the Directors may from time to time approve. Except to the extent that the *Company Act* may otherwise provide, the transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register of members or a branch register of members in respect thereof.

5.2. The signature of the registered owner of any shares, or of his or her duly authorized attorney, upon an authorized instrument of transfer shall constitute a complete and sufficient authority to the Company, its directors, officers and agents to register, in the name of the transferee as named in the instrument of transfer, the number of shares specified therein or, if no number is specified, all the shares of the registered owner represented by share certificates deposited with the instrument of transfer. If no transferee is named in the instrument of transfer, the instrument of transfer shall constitute a complete and sufficient authority to the Company, its directors, officers and agents to register, in the name of the person in whose behalf any certificate for the shares to be transferred is deposited with the Company for the purpose of having the transfer registered, the number of shares specified in the instrument of transfer or, if no number is specified, all the shares represented by all share certificates deposited with the instrument of transfer.

5.3. Neither the Company nor any Director, officer or agent thereof shall be bound to inquire into the title of the person named in the form of transfer as transferee, or, if no person is named therein as transferee, of the person on whose behalf the certificate is deposited with the Company for the purpose of having the transfer

registered or be liable to any claim by such registered owner or by any intermediate owner or holder of the certificate or of any of the shares represented thereby or any interest therein for registering the transfer, and the transfer, when registered, shall confer upon the person in whose name the shares have been registered a valid title to such shares.

5.4. Every instrument of transfer shall be executed by the transferor and left at the registered office of the Company or at the office of its transfer agent or registrar for registration together with the share certificate for the shares to be transferred and such other evidence, if any, as the Directors or the transfer agent or registrar may require to prove the title of the transferor or his or her right to transfer the shares and the right of the transferee to have the transfer registered. All instruments of transfer where the transfer is registered shall be retained by the Company or its transfer agent or registrar and any instrument of transfer, where the transfer is not registered, shall be returned to the person depositing the same together with the share certificate which accompanied the same when tendered for registration.

5.5. There shall be paid to the Company in respect of the registration of any transfer such reasonable sum, if any, as the Directors may from time to time determine.

5.6. In the case of the death of a member, the survivor or survivors in respect of shares registered in the name of the deceased and the name of another person or other persons in joint tenancy, and the legal personal representative of the deceased in any other case, shall be the only persons recognized by the Company as having any title to his or her interest in the shares. Before recognizing any legal personal representative the Directors may require him or her to deliver to the Company the original or a Court certified copy of a grant of probate or letters of administration in British Columbia or such other evidence and documents as the Directors consider appropriate in order to establish the right of the legal personal representative to title to the interest of the deceased in the shares.

5.7. The guardian, committee, trustee, curator, tutor, legal personal representative or trustee in bankruptcy of a member, although not a member, shall have the same rights, privileges and obligations that attach to the shares held by the member if the documents required by the *Company Act* shall have been deposited with the Company. This Article shall not apply on the death of a member with respect to shares registered in the name of the deceased and the name of another person or other persons in joint tenancy.

5.8. Any person becoming entitled to a share as a guardian, committee, trustee, curator, tutor, legal personal representative or trustee in bankruptcy of a member, upon such documents and evidence being deposited with the Company as the *Company Act* requires, or who becomes entitled to a share as a result of an order of a Court of competent jurisdiction or a statute, has the right either to be registered as a member in his or her representative capacity in respect of such share, or, instead of being registered himself, to make such transfer of the share as the member could have made; but the Directors shall, as regards such transfer, have the same right, if any, to decline or suspend registration of a transferee as they would have in the case of a transfer of a share by the member, and such transfer shall be subject to any restrictions and provisions as to the transfer of shares as are contained in these Articles or in the Memorandum.

PART 6

ALTERATION OF CAPITAL

6.1. The Company may by special resolution filed with the Registrar amend its Memorandum to increase the authorized capital of the Company by:

(i) creating shares with par value or shares without par value, or both;

(ii) increasing the number of shares with par value or shares without par value, or both; or

(iii) increasing the par value of a class of shares with par value, if no shares of that class are issued.

6.2. The Company may by special resolution filed with the Registrar alter its Memorandum to subdivide, consolidate, change from shares with par value to shares without par value, or from shares without par value to shares with par value, or change the designation of all or any of its shares but only to such extent, in such manner

and with such consents of members holding a class or series of shares which is the subject of or affected by such alteration, as the *Company Act* provides.

6.3. The Company may alter its Memorandum or these Articles:

(i) by special resolution, to create, define and attach special rights or restrictions to any shares; and

(ii) by special resolution and by otherwise complying with any applicable provision of its Memorandum or these Articles, to vary or abrogate any special rights and restrictions attached to any shares,

and in each case by filing a certified copy of such resolution with the Registrar, but no right or special right attached to any issued shares shall be prejudiced or interfered with unless:

(iii) if the right or special right prejudiced or interfered with is attached to a class of shares, members holding shares of that class; and

(iv) if the right or special right prejudiced or interfered with is attached to a series of shares and the rights or special rights attached to that series are affected differently from those attached to another series of the same class, members holding shares of that series,

consent by a separate resolution of the members of that class or series, as the case may be, passed by a majority of three-fourths of the votes cast, or by such greater majority as may be specified by the special rights and restrictions attached to the class or series of shares, as the case may be.

6.4. Notwithstanding the foregoing provisions of this Part, no such alteration shall be valid as to any part of the issued shares of any class, or in the case of a class with more than one series, any series, unless the holders of the issued shares of such class or series not being changed either all consent thereto in writing or, at a separate class meeting or series meeting, as the case may be, consent thereto by a resolution passed by the votes of members holding in the aggregate not less than three-fourths of the shares not being changed of that class or series, as the case may be.

6.5. No resolution to create, vary or abrogate any special right of conversion or exchange attaching to any shares shall be submitted to any meeting of members unless any consent thereto required to be obtained under the *Company Act* shall have been first obtained.

6.6. Subject to the provisions of the *Company Act*, unless specified otherwise in these Articles or in the special rights and restrictions attached to any class or series of shares, the provisions of these Articles relating to general meetings shall apply, with the necessary changes and so far as they are applicable, to a class meeting or series meeting of members holding a particular class or series of shares.

PART 7

PURCHASE AND REDEMPTION OF SHARES

7.1. The Company may, by a resolution of the Directors pursuant to the special rights and restrictions attached to any class or series of shares, as provided in Article 28 hereto or in compliance with the *Company Act*, purchase any of its shares at the price and upon the terms specified in such resolution, or pursuant to the special rights and restrictions attaching to any class or series of shares or as provided in Article 28 hereof, redeem any of its shares.

No such purchase or redemption shall be made if the Company is insolvent at the time of the proposed purchase or redemption or if the proposed purchase or redemption would render the Company insolvent. Unless the shares are to be purchased through a stock exchange or the Company is purchasing the shares from dissenting members pursuant to the requirements of the *Company Act* or from members pursuant to an order of a Court of competent jurisdiction, or the shares are to be purchased by the Company from a bona fide employee or a bona fide former employee of the Company or of an affiliate of the Company, or his or her personal representative, in respect of shares beneficially owned by the employee or former employee, the Company shall, subject to the provisions of Article 28, make its offer to purchase pro rata to every member who holds shares of the class or series, as the case may be, to be purchased.

7.2. Subject to the special rights and restrictions attached to any class or series of shares and subject to the provisions of Article 28 hereof, if the Company proposes at its option to redeem some but not all of the shares of any class or series, the Directors may decide the manner in which the shares to be redeemed shall be selected.

7.3. Subject to the provisions of the *Company Act*, any shares purchased or redeemed by the Company but not cancelled may be sold, or, if cancelled, reissued by it, but, while any such shares which have not been cancelled are held by the Company, it shall not exercise any vote in respect of these shares and no dividend or other distribution shall be paid or made thereon.

PART 8

BORROWING POWERS

8.1. The Directors may from time to time on behalf of the Company:

(i) borrow money in such manner and amount, on such security, from such sources and upon such terms and conditions as they think fit;

(ii) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person; and

(iii) mortgage, charge, whether by way of specific or floating charge, or give other security on the undertaking, or on the whole or any part of the property and assets of the Company (both present and future).

8.2. Any bonds, debentures or other debt obligations of the Company may be issued at a discount, premium or otherwise, and with any special privileges as to redemption, surrender, drawing, allotment of or conversion into or exchange for shares or other securities, or otherwise and may by their terms be assignable free from any equities between the Company and the person to whom they were issued or any subsequent holder thereof, all as the Directors may determine.

8.3. The Company shall keep or cause to be kept within the Province of British Columbia in accordance with the *Company Act* a register of its debentures and a register of debentureholders, which registers may be combined, and, subject to the provisions of the *Company Act*, may keep or cause to be kept one or more branch registers of its debentureholders at such place or places as the Directors may from time to time determine and the Directors may by resolution, regulation or otherwise make such provisions as they think fit respecting the keeping of such branch registers.

8.4. Every bond, debenture or other debt obligation of the Company shall be signed manually by at least one Director or officer of the Company or by or on behalf of a trustee, registrar, branch registrar, transfer agent or branch transfer agent for the bond, debenture or other debt obligation appointed by the Company or under any instrument under which the bond, debenture or other debt obligation is issued and any additional signatures may be printed or otherwise mechanically reproduced thereon and, in such event, a bond, debenture or other debt obligation so signed is as valid as if signed manually notwithstanding that any person whose signature is so printed or mechanically reproduced shall have ceased to hold the office that he or she is stated on such bond, debenture or other debt obligation to hold at the date of the issue thereof.

8.5. The Company shall keep or cause to be kept a register of its indebtedness to every Director or officer of the Company or an associate of any of them, in accordance with the provisions of the *Company Act*.

PART 9

GENERAL MEETINGS

9.1. Subject to any extensions of time permitted pursuant to the *Company Act*, an annual general meeting shall be held once in every calendar year at such time (being not more than thirteen months after the date on which the last preceding annual general meeting was held) and place as may be determined by the Directors.

9.2. All general meetings other than annual general meetings are herein referred to as and may be called extraordinary general meetings.

9.3. The Directors may, whenever they think fit, convene an extraordinary general meeting. An extraordinary general meeting, if requisitioned in accordance with the *Company Act*, shall be convened by the Directors or, if not convened by the Directors, may be convened by the requisitionists as provided in the *Company Act*.

9.4. Advance notice of any general meeting at which Directors are to be elected shall be published in the manner required by the *Company Act*.

9.5. A notice convening a general meeting specifying the place, the day, and the hour of the meeting, and, in case of special business, the general nature of that business, shall be given as provided in the *Company Act* and in the manner hereinafter in these Articles mentioned, or in such other manner (if any) as may be prescribed by ordinary resolution, whether previous notice thereof has been given or not, to such persons as are entitled by law or under these Articles to receive such notice from the Company. Accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any member shall not invalidate the proceedings at that meeting.

9.6. All the members of the Company entitled to attend and vote at a general meeting may, by unanimous consent in writing given before, during or after the meeting, or if they are present at the meeting by a unanimous vote, waive or reduce the period of notice of such meeting and an entry in the minute book of such waiver or reduction shall be sufficient evidence of the due convening of the meeting.

9.7. Except as otherwise provided by the *Company Act*, where any special business at a general meeting includes considering, approving, ratifying, adopting or authorizing any document or the execution thereof or the giving of effect thereto, the notice convening the meeting shall, with respect to such document, be sufficient if it states that a copy of the document or proposed document is or will be available for inspection by members at the registered office or records office of the Company or at some other place in British Columbia designated in the notice during usual business hours up to the date of such general meeting.

PART 10

PROCEEDINGS AT GENERAL MEETINGS

10.1. All business shall be deemed special business which is transacted at:

(i) an extraordinary general meeting; and

(ii) an annual general meeting, with the exception of the consideration of the financial statements and of the respective reports of the Directors and Auditor, the election of directors, the appointment of the Auditor, the fixing of the remuneration of the Auditor and such other business as by these Articles or the *Company Act* may be transacted at a general meeting without prior notice thereof being given to the members or any business which is brought under consideration by the report of the Directors.

10.2. No business other than election of the chairman or the adjournment of the meeting shall be transacted at any general meeting unless a quorum of members entitled to attend and vote is present at the commencement of the meeting, but the quorum need not be present throughout the meeting.

10.3. Save as herein otherwise provided, a quorum shall be two persons present and being, or representing by proxy, members holding not less than one-twentieth of the issued shares entitled to be voted at the meeting. The Directors, the Secretary, or, in his or her absence, an Assistant Secretary, and the solicitor of the Company shall be entitled to attend at any general meeting but no such person shall be counted in the quorum or be entitled to vote at any general meeting unless he or she shall be a member or proxyholder entitled to vote thereat.

10.4. If within half an hour from the time appointed for a general meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, and, if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the person or persons present and being, or representing by proxy, a member or members entitled to attend and vote at the meeting shall be a quorum.

10.5. The Chairman of the Board, if any, or in his or her absence the President and Chief Executive Officer of the Company or in his or her absence a Vice-President of the Company, if any, shall be entitled to preside as chairman at every general meeting of the Company.

10.6. If at any general meeting neither the Chairman of the Board nor the President and Chief Executive Officer nor a Vice-President is present within fifteen minutes after the time appointed for holding the meeting or is willing to act as chairman, the Directors present shall choose one of their number to be chairman or if all the Directors present decline to take the chair or shall fail to so choose or if no Director be present, the members present shall choose one of their number to be chairman.

10.7. The chairman may, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice, but not "advance notice", of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting.

10.8. No motion proposed at a general meeting need be seconded and the chairman may propose or second a motion.

10.9. Subject to the provisions of the *Company Act*, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is directed by the chairman or demanded by at least one member entitled to vote who is present in person or by proxy. The chairman shall declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, and such decision shall be entered in the book of proceedings of the Company. A declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or lost or not carried by a particular majority and an entry to that effect in the book of the proceedings of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.

10.10. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall not be entitled to a second or casting vote in addition to the vote or votes to which he or she may be entitled as a member.

10.11. No poll may be demanded on the election of a chairman. A poll demanded on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken, as soon as, in the opinion of the chairman, is reasonably convenient, but in any event within seven days and at such time and place and in such manner as the chairman of the meeting directs. The result of the poll shall be deemed to be the resolution of and passed at the meeting at which the poll was demanded. Any business other than that upon which the poll has been demanded may be proceeded with pending the taking of the poll. A demand for a poll may be withdrawn. In any dispute as to the admission or rejection of a vote the decision of the chairman made in good faith shall be final and conclusive.

10.12. Every ballot cast upon a poll and every proxy appointing a proxyholder who casts a ballot upon a poll shall be retained by the Secretary for such period and be subject to such inspection as the *Company Act* may provide.

10.13. On a poll a person entitled to cast more than one vote need not, if he or she votes, use all his or her votes or cast all the votes he or she uses in the same way.

10.14. Unless the *Company Act*, the Memorandum or these Articles otherwise provide, any action to be taken by a resolution of the members may be taken by an ordinary resolution.

10.15. Notwithstanding anything to the contrary contained in the *Company Act*, (a) no amendment may be made to these Articles or Memorandum (except as otherwise expressly specified herein), and (b) no action may be taken as may be required or contemplated by Sections 37, 103, 126, 207, 221, 223, 233, 248, 252, 267 or 289(1) of the *Company Act* (as at September 30, 1998) as they relate to any approval by members of the Company, unless in either case such actions are approved by special resolution. For greater certainty, the requirement of

this Article 10.15 shall continue notwithstanding any amendment to the *Company Act* and this Article 10.15 may only be amended by special resolution.

PART 11

VOTES OF MEMBERS

11.1. Subject to any special voting rights or restrictions attached to any class of shares and the restrictions on joint registered holders of shares, on a show of hands every member or his or her proxyholder who is present and entitled to vote at the meeting shall have one vote and on a poll every member shall have one vote for each share of which he or she is the registered holder and may exercise such vote either in person or by proxyholder.

11.2. Any person who is not registered as a member but is entitled to vote at any general meeting in respect of a share, may vote the share in the same manner as if he or she were a member; but, unless the Directors have previously admitted his or her right to vote at that meeting in respect of the share, he or she shall satisfy the Directors of his or her right to vote the share before the time for holding the meeting, or adjourned meeting, as the case may be, at which he or she proposes to vote.

11.3. Any corporation not being a subsidiary which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any general meeting or class or series meeting. The person so authorized shall be entitled to exercise in respect of and at such meeting the same powers on behalf of the corporation which he or she represents as that corporation could exercise if it were an individual member of the Company personally present, including, without limitation, the right, unless restricted by such resolution, to appoint a proxyholder to represent such corporation, and shall be counted for the purpose of forming a quorum if present at the meeting. Evidence of the appointment of any such representative may be sent to the Company by written instrument, facsimile or any method of transmitting legibly recorded messages. Notwithstanding the foregoing, a corporation being a member may appoint a proxyholder.

11.4. In the case of joint registered holders of a share the vote of the senior who exercises a vote, whether in person or by proxyholder, shall be accepted to the exclusion of the votes of the other joint registered holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members. Several legal personal representatives of a member whose shares are registered in his or her sole name shall for the purpose of this Article be deemed joint registered holders.

11.5. A member of unsound mind entitled to attend and vote, in respect of whom an order has been made by any court having jurisdiction, may vote, whether on a show of hands or on a poll, by his or her committee, curator bonis, or other person in the nature of a committee or curator bonis appointed by that court, and any such committee, curator bonis, or other person may appoint a proxyholder.

11.6. A member holding more than one share in respect of which he or she is entitled to vote shall be entitled to appoint one or more (but in the case of a company that is not a reporting company, not more than five) proxyholders to attend, act and vote for him or her on the same occasion. If such a member should appoint more than one proxyholder for the same occasion he or she shall specify the number of shares each proxyholder shall be entitled to vote. A member may also appoint one or more alternate proxyholders to act in the place and stead of an absent proxyholder.

11.7. A form of proxy shall be in writing under the hand of the appointor or of his or her attorney duly authorized in writing, or, if the appointor is a corporation, either under the seal of the corporation or under the hand of a duly authorized officer or attorney. A proxyholder need not be a member of the Company.

11.8. A form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof shall be deposited at the registered office of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than 48 hours (excluding Saturdays, Sundays and holidays) or such lesser period as the Directors may from time to time determine before the time for holding the meeting in respect of which the person named in the instrument is appointed. In addition to any other method of depositing proxies provided for in these Articles, the Directors may from time to time by resolution make regulations relating to the depositing of proxies at any place or places and fixing the time or

times for depositing the proxies, which time or times shall not exceed 48 hours (excluding Saturdays, Sundays and holidays) preceding the meeting or adjourned meeting specified in the notice calling a meeting of members, and providing for particulars of such proxies to be sent to the Company or any agent of the Company in writing or by letter, facsimile or any method of transmitting legibly recorded messages so as to arrive before the commencement of the meeting or adjourned meeting at the office of the Company or of any agent of the Company appointed for the purpose of receiving such particulars and providing that proxies so deposited may be acted upon as though the proxies themselves were deposited as required by this Part and votes given in accordance with such regulations shall be valid and shall be counted.

11.9. Unless the *Company Act* or any other statute or law which is applicable to the Company or to any class of its shares requires any other form of proxy, a proxy, whether for a specified meeting or otherwise, shall be in the form following, but may also be in any other form that the Directors or the chairman of the meeting shall approve:

(Name of Company)

The undersigned, being a member of the above named Company, hereby appoints _____ or failing him or her _____ as proxyholder for the undersigned to attend, act and vote for and on behalf of the undersigned at the general meeting of the Company to be held on the _____ day of _____ and at any adjournment thereof.

Signed this _____ day of _____, 19__.

(Signature of member).

11.10. A vote given in accordance with the terms of a proxy is valid notwithstanding the previous death or incapacity of the member giving the proxy or the revocation of the proxy or of the authority under which the form of proxy was executed or the transfer of the share in respect of which the proxy is given, provided that no notification in writing of such death, incapacity, revocation or transfer shall have been received at the registered office of the Company or by the chairman of the meeting or adjourned meeting for which the proxy was given before the vote is taken.

11.11. Every proxy may be revoked by an instrument in writing:

(i) executed by the member giving the same or by his or her attorney authorized in writing or, where the member is a corporation, by a duly authorized officer or attorney of the corporation; and

(ii) delivered either at the registered office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or to the chairman of the meeting on the day of the meeting or any adjournment thereof, before any vote in respect of which the proxy is to be used shall have been taken

or in any other manner provided by law.

PART 12

DIRECTORS

12.1. The number of Directors shall initially be no more than two and from and after the Effective Date shall be 16. The number of Directors may be fixed or changed from time to time by special resolution, whether previous notice thereof has been given or not, provided that the number of Directors so fixed shall be a number which is divisible by 4.

12.2. The remuneration of the Directors as such may from time to time be determined by the Directors. Such remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such who is also a Director. The Directors shall be repaid such reasonable travelling, hotel and other expenses as they incur in and about the business of the Company and if any Director shall perform any professional or other services for the Company that in the opinion of the Directors are outside the ordinary duties of a Director or shall otherwise be specially occupied in or about the Company's business, he or she may be paid a remuneration to be fixed by the Board, and such remuneration may be either in addition to, or in substitution for any other remuneration that he or she may be entitled to receive. The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any salaried office or place of profit with the Company or to his or her spouse or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

12.3. A Director shall not be required to hold a share in the capital of the Company as qualification for his or her office but shall be qualified as required by the *Company Act*, to become or act as a Director.

PART 13

ELECTION AND REMOVAL OF DIRECTORS

13.1. At each annual general meeting of the Company all the Directors shall retire and the members entitled to vote thereat shall elect a Board of Directors or Directors consisting of the number of Directors for the time being fixed pursuant to these Articles.

13.2. A retiring Director shall be eligible for re-election.

13.3. Where the Company fails to hold an annual general meeting in accordance with the *Company Act*, the Directors then in office shall be deemed to have been elected or appointed as Directors on the last day on which the annual general meeting could have been held pursuant to these Articles and they may hold office until other Directors are appointed or elected or until the day on which the next annual general meeting is held.

13.4. If at any general meeting at which there should be an election of Directors, the places of any of the retiring Directors are not filled by such election, such of the retiring Directors who are not re-elected as may be requested by the newly-elected Directors shall, if willing to do so, continue in office to complete the number of Directors for the time being fixed pursuant to these Articles until further new Directors are elected at a general meeting convened for the purpose.

13.5. Any casual vacancy occurring in the Board of Directors may be filled by the remaining Directors or Director.

13.6. Any Director may by instrument in writing delivered to the Company appoint any person to be his or her alternate to act in his or her place at meetings of the Directors at which he or she is not present unless, if such person is not a Director, the Directors shall have reasonably disapproved his or her appointment as an alternate Director and shall have given notice to that effect to the Director making such appointment within a reasonable time after delivery of such instrument to the Company. Every such alternate Director shall be entitled to notice of meetings of the Directors and to attend and vote as a Director at a meeting at which the person appointing him or her is not personally present, and, if he or she is a Director, to have a separate vote on behalf of the Director he or she is representing in addition to his or her own vote. A Director may at any time by instrument, facsimile or any method of transmitting legibly recorded messages delivered to the Company revoke the appointment of an alternate Director appointed by him or her. An alternate Director as such shall not be entitled to any remuneration from the Company.

13.7. The office of Director shall be vacated if the Director:

(i) resigns his or her office by notice in writing delivered to the registered office of the Company; or

(ii) is convicted of an indictable offence and the other Directors shall have resolved to remove him or her; or

(iii) ceases to be qualified to act as a Director pursuant to the *Company Act*.

PART 14

POWERS AND DUTIES OF DIRECTORS

14.1. The Directors shall manage or supervise the management of, the affairs and business of the Company and shall have the authority to exercise all such powers of the Company as are not, by the *Company Act* or by the Memorandum or these Articles, required to be exercised by the Company in general meeting, subject, nevertheless, to these Articles and all laws affecting the Company.

14.2. The Directors may from time to time by power of attorney or other instrument under the seal, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles and excepting the powers of the Directors relating to the constitution of the Board and of any of its committees and the appointment or removal of officers and the power to declare dividends) and for such period, with such remuneration and subject to such conditions as the Directors may think fit, and any such appointment may be made in favour of any of the Directors, officers or members of the Company or in favour of any corporation, or of any of the shareholders, directors, officers, nominees or managers of any corporation, firm or joint venture and any such power of attorney may contain such provisions for the protection or convenience of persons dealing with such attorney as the Directors think fit. Any such attorney may be authorized by the Directors to subdelegate all or any of the powers, authorities and discretions for the time being vested in him.

PART 15

DISCLOSURE OF INTEREST OF DIRECTORS

15.1. (a) A Director who is, in any way, directly or indirectly interested in an existing or proposed contract or transaction with the Company shall disclose the nature and extent of his or her interest in accordance with the provisions of the *Company Act*.

(b) A Director who holds any office or possesses any property whereby, directly or indirectly, a duty or interest might be created in conflict with his or her duty or interest as a Director, shall declare the fact, and the nature and extent of the conflict or potential conflict in accordance with the provisions of the *Company Act*.

15.2. A Director shall not vote in respect of any such contract or transaction with the Company in which he or she is interested and if he or she shall do so his or her vote shall not be counted, but he or she shall be counted in the quorum present at the meeting at which such vote is taken. This Article and Article 15.1(a) shall not apply in those circumstances where a Director is, under the provisions of the *Company Act*, deemed not to be interested in a proposed contract or transaction. The Company, by special resolution, may from time to time suspend the application of this Article and Article 15.1(a) to any extent permitted by the *Company Act*.

15.3. A Director may hold any office or place of profit with the Company (other than the office of Auditor of the Company) in conjunction with his or her office of Director for such period and on such terms (as to remuneration or otherwise) as the Directors may determine and no Director or intended Director shall be disqualified by his or her office from contracting with the Company either with regard to his or her tenure of any such other office or place of profit or as vendor, purchaser or otherwise, and, subject to compliance with the provisions of the *Company Act*, no contract or transaction entered into by or on behalf of the Company in which a Director is in any way interested shall be liable to be voided by reason thereof.

15.4. Subject to compliance with the provisions of the *Company Act*, a Director or any corporation or firm in which he or she has an interest may act in a professional capacity for the Company (except as Auditor of the Company) and he or she or such corporation or firm shall be entitled to remuneration for professional services as if he or she were not a Director.

15.5. A Director may be or become a director or other officer or employee of, or otherwise interested in, any corporation or firm in which the Company may be interested as a shareholder or otherwise, and, subject to compliance with the provisions of the *Company Act*, such Director shall not be accountable to the Company for any remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other corporation or firm.

PART 16

PROCEEDINGS OF DIRECTORS

16.1. The Chairman of the Board, if any, or in his or her absence, the President and Chief Executive Officer shall preside as chairman at every meeting of the Directors, or if there is no Chairman of the Board or neither the Chairman of the Board nor the President and Chief Executive Officer is present within fifteen minutes of the time appointed for holding the meeting or is willing to act as chairman, or, if the Chairman of the Board, if any, and the President and Chief Executive Officer have advised the Secretary that they will not be present at the meeting, the Directors present shall choose one of their number to be chairman of the meeting.

16.2. The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by majority of votes, except as otherwise set forth in these Articles. In case of an equality of votes the chairman shall not have a second or casting vote. Meetings of the Board held at regular intervals may be held at such place, or such time and upon such notice (if any) as the Board may by resolution from time to time determine.

16.3. A Director may participate in a meeting of the Board or of any committee of the Directors by means of conference telephones or other communications facilities by means of which all Directors participating in the meeting can hear and speak to each other. A Director participating in a meeting in accordance with this Article shall be deemed to be present at the meeting and to have so agreed and shall be counted in the quorum therefor and be entitled to speak and vote thereat.

16.4. A Director may, and the Secretary or an Assistant Secretary upon request of a Director shall, call a meeting of the Board at any time. Reasonable notice of such meeting specifying the place, day and hour of such meeting shall be given by mail, postage prepaid, addressed to each of the Directors and alternate Directors at his or her address as it appears on the books of the Company or by leaving it at his or her usual business or residential address or by telephone, facsimile or any method of transmitting legibly recorded messages. It shall not be necessary to give notice of a meeting of Directors to any Director or alternate Director if such meeting is to be held immediately following a general meeting at which such Director shall have been elected or is the meeting of Directors at which such Director is appointed. Accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any Director or alternate Director shall not invalidate the proceedings at that meeting.

16.5. Any Director of the Company may file with the Secretary a document executed by him or her waiving notice of any past, present or future meeting or meetings of the Directors being, or required to have been, sent to him or her and may at any time withdraw such waiver with respect to meetings held thereafter. After filing such waiver with respect to future meetings and until such waiver is withdrawn no notice need be given to such Director and, unless the Director otherwise requires in writing to the Secretary, to his or her alternate Director of any meeting of Directors and all meetings of the Directors so held shall be deemed not to be improperly called or constituted by reason of notice not having been given to such Director or alternate Directors.

16.6. The quorum necessary for the transaction of the business of the Directors shall be a majority of the Directors.

16.7. The continuing Directors may act notwithstanding any vacancy in their body, but, if and so long as their number is reduced below the number fixed pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number of directors to that number, or for summoning a general meeting of the Company, but for no other purpose.

16.8. Subject to the provisions of the *Company Act*, all acts resolved by any meeting of the Directors or of a committee of Directors, or by any person acting as a Director, shall, notwithstanding that it be afterwards discovered that there was some defect in the qualification, election or appointment of any such Directors or of the members of such committee or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly elected or appointed and was qualified to be a Director.

16.9. A resolution consented to in writing, whether by document, facsimile or any method of transmitting legibly recorded messages, by all of the Directors shall be as valid and effectual as if it had been passed at a

meeting of the Directors duly called and held. Such resolution may be in two or more counterparts which together shall be deemed to constitute one resolution in writing. Such resolution shall be filed with the minutes of the proceedings of the Directors and shall be effective on the date stated thereon or on the latest date stated on any counterpart.

PART 17

COMMITTEES

17.1. The Directors may by resolution appoint one or more committees consisting of such member or members of their body as they think fit and may delegate to any such committee between meetings of the Board such powers of the Board subject to such conditions as may be prescribed in such resolution. Notwithstanding the foregoing, no committee of Directors shall have authority to:

(a) submit to the members any question or matter requiring the approval of the members;

(b) fill a vacancy among the Directors, any committee or the Auditor;

(c) issue securities except in the manner and on the terms authorized by the Directors;

(d) declare dividends;

(e) purchase, redeem or otherwise acquire shares issued by the Company;

(f) pay a commission referred to in Article 3.2;

(g) approve a management proxy circular;

(h) approve a take-over bid circular or directors' circular;

(i) appoint or remove the President and Chief Executive Officer; or

(j) any powers of the Directors set forth in Article 28.

All committees so appointed shall keep regular minutes of their transactions and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board of Directors at such times as the Board of Directors may from time to time require. The Directors shall also have power at any time to revoke or override any authority given to or acts to be done by any such committees except as to acts done before such revocation or overriding and to terminate the appointment or change the membership of a committee and to fill vacancies in it. Committees may make rules for the conduct of their business and may appoint such assistants as they may deem necessary. A majority of the members of a committee shall constitute a quorum thereof.

17.2. Any committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members of the committee present, and in case of an equality of votes the chairman shall not have a second or casting vote. A resolution consented to in writing, whether by document, facsimile or any method of transmitting legibly recorded messages, by all the members of the committee shall be as valid and effective as if it had been passed at a meeting of such committee duly called and constituted. Such resolution may be in two or more counterparts which together shall be deemed to constitute one resolution in writing. Such resolution shall be filed with the minutes of the proceedings of the committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.

PART 18

OFFICERS

18.1. The Directors shall, from time to time, appoint a President and Chief Executive Officer and a Secretary and such other officers, if any, as the Directors shall determine and the Directors may, at any time, terminate any such appointment. No officer shall be appointed unless he or she is qualified in accordance with the provisions of the *Company Act*.

18.2. Notwithstanding the foregoing, no person shall be appointed or designated as the President and Chief Executive Officer at any time after the initial President and Chief Executive Officer is appointed or

designated at the Effective Date, unless such appointment or designation is approved by a favourable vote of at least 75% of the Directors, excluding the then current President and Chief Executive Officer, if any, attending and voting at the meeting. Not more than once in any twelve month period, any four Directors may give notice to the Secretary that they have lost confidence in the President and Chief Executive Officer specifying the reasons therefor. The President and Chief Executive Officer shall be removed from office effective on the 30th day following the giving of such notice unless on or prior to the 30th day following receipt of such notice at least 75% of the Directors, excluding the then current President and Chief Executive Officer, if any, attending and voting at the meeting, vote to retain the President and Chief Executive Officer and if not so retained shall not be reappointed. In the event of any vacancy, the Directors shall designate an interim President and Chief Executive Officer to hold such position until a successor is approved by the Directors in accordance with the foregoing, and, failing such interim appointment, the Chairman of the Board shall act as President and Chief Executive Officer. This Article 18.2 may only be amended by special resolution. This Article 18.2 shall terminate on the tenth anniversary of the Effective Date.

18.3. One person may hold more than one of such offices except that the offices of President and Secretary must be held by different persons. Any person appointed as the Chairman of the Board or the President and Chief Executive Officer shall be a Director. The other officers need not be Directors. The remuneration of the officers of the Company as such and the terms and conditions of their tenure of office or employment shall from time to time be determined by the Directors or any committees of the Directors so empowered, such remuneration may be by way of salary, fees, wages or bonuses or any other means or all of these modes and an officer may in addition to such remuneration be entitled to receive after he or she ceases to hold such office or leaves the employment of the Company a pension or gratuity.

18.4. The Directors may decide what functions and duties each officer shall perform and may entrust to and confer upon him or her any of the powers exercisable by them other than those referred to in Article 17.1 upon such terms and conditions and with such restrictions as they think fit and may from time to time revoke, withdraw, alter or vary all or any of such functions, duties and powers. Subject to the foregoing, the following officers shall have the following responsibilities:

(a) *President and Chief Executive Officer:* The President and Chief Executive Officer shall be the chief executive officer of the Company. The President and Chief Executive Officer shall be charged with the general supervision of the business and affairs of the Company, and all such other matters which are delegated by the Directors, to the extent that such matters may be delegated by the *Company Act* and these Articles.

(b) *Secretary:* The Secretary shall, inter alia, perform the functions of the Secretary specified in the *Company Act*.

18.5. Every officer of the Company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his or her duties or interests as an officer of the Company shall, in writing, disclose to the President and Chief Executive Officer the fact and the nature and extent of the conflict.

PART 19

INDEMNITY AND PROTECTION OF DIRECTORS, OFFICERS AND EMPLOYEES

19.1. Subject to the provisions of the *Company Act*, the Directors shall cause the Company to indemnify a Director or former Director of the Company and the Directors shall cause the Company to indemnify a director or former director of a corporation of which the Company is or was a shareholder and the heirs and personal representatives of any such person against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him or her or them including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he or she is or they are made a party by reason of his or her being or having been a Director of the Company or a director of such corporation, including any action brought by the Company or any such corporation. Each Director of the Company on being elected or appointed shall be deemed to have contracted with the Company on the terms of the foregoing indemnity.

19.2. Subject to the provisions of the *Company Act*, the Directors shall cause the Company to indemnify any officer, employee or agent of the Company or of a corporation of which the Company is or was a shareholder (notwithstanding that he or she is also a Director) and his or her heirs and personal representatives against all costs, charges and expenses whatsoever incurred by him or her or them and resulting from his or her acting as an officer, employee or agent of the Company or such corporation. In addition the Company shall indemnify the Secretary or an Assistant Secretary of the Company (if he or she shall not be a full time employee of the Company and notwithstanding that he or she is also a Director) and his or her respective heirs and legal representatives against all costs, charges and expenses whatsoever incurred by him or her or them and arising out of the functions assigned to the Secretary by the *Company Act* or these Articles and each such Secretary and Assistant Secretary shall on being appointed be deemed to have contracted with the Company on the terms of the foregoing indemnity.

19.3. The failure of a Director or officer of the Company to comply with the provisions of the *Company Act* or of the Memorandum or these Articles shall not invalidate any indemnity to which he or she is entitled under this Part.

19.4. The Directors may cause the Company to purchase and maintain insurance for the benefit of any person who is or was serving as a Director, officer, employee or agent of the Company or as a director, officer, employee or agent of any corporation of which the Company is or was a shareholder and his or her heirs or personal representatives against any liability incurred by him or her as such Director, director, officer, employee or agent.

PART 20

DIVIDENDS AND RESERVE

20.1. The Directors may from time to time declare and authorize payment of such dividends, if any, as they may deem advisable and need not give notice of such declaration to any member. No dividend shall be paid otherwise than out of funds and/or assets properly available for the payment of dividends and a declaration by the Directors as to the amount of such funds or assets available for dividends shall be conclusive. The Company may pay any such dividend wholly or in part by the distribution of specific assets and in particular by paid up shares, bonds, debentures or other securities of the Company or any other corporation or in any one or more such ways as may be authorized by the Company or the Directors and where any difficulty arises with regard to such a distribution the Directors may settle the same as they think expedient and in particular may fix the value for distribution of such specific assets or any part thereof, and may determine that cash payments in substitution for all or any part of the specific assets to which any members are entitled shall be made to any members on the basis of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees for the persons entitled to the dividend as may seem expedient to the Directors.

20.2. Any dividend declared on shares of any class or series by the Directors may be made payable on such date as is fixed by the Directors.

20.3. Subject to the rights of members (if any) holding shares with special rights as to dividends, all dividends on shares of any class or series shall be declared and paid according to the number of such shares held.

20.4. The Directors may, before declaring any dividend, set aside out of the funds properly available for the payment of dividends such sums as they think proper as a reserve or reserves, which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which such funds of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may also, without placing the same in reserve, carry forward such funds, which they think prudent not to divide.

20.5. If several persons are registered as joint holders of any share, any one of them may give an effective receipt for any dividend, bonuses or other moneys payable in respect of the share.

20.6. No dividend shall bear interest against the Company. Where the dividend to which a member is entitled includes a fraction of a cent, such fraction shall be disregarded in making payment thereof and such payment shall be deemed to be payment in full.

20.7. Any dividend, bonuses or other moneys payable in cash in respect of shares may be paid by cheque sent through the post or by electronic transfer, so authorized by the member, directed to the registered address of the holder, or in the case of joint holders, to the registered address of that one of the joint holders who is first named on the register, or to such person and to such address as the holder or joint holders may direct in writing. Every such cheque shall be made payable to the order of the person to whom it is sent. The mailing of such cheque or the forwarding by electronic transfer shall, to the extent of the sum represented thereby (plus the amount of any tax required by law to be deducted) discharge all liability for the dividend, unless such cheque shall not be paid on presentation or the amount of tax so deducted shall not be paid to the appropriate taxing authority.

20.8. Notwithstanding anything contained in these Articles, the Directors may from time to time capitalize any undistributed surplus on hand of the Company and may from time to time issue as fully paid and non-assessable any unissued shares, or any bonds, debentures or debt obligations of the Company as a dividend representing such undistributed surplus on hand or any part thereof.

PART 21

DOCUMENTS, RECORDS AND REPORTS

21.1. The Company shall keep at its records office or at such other place as the *Company Act* may permit, the documents, copies, registers, minutes, and records which the Company is required by the *Company Act* to keep at its records office or such other place, as the case may be.

21.2. The Company shall cause to be kept proper books of account and accounting records in respect of all financial and other transactions of the Company in order properly to record the financial affairs and conditions of the Company and to comply with the *Company Act*.

21.3. Unless the Directors determine otherwise, no member of the Company shall be entitled to inspect the accounting records of the Company.

21.4. The Directors shall from time to time at the expense of the Company cause to be prepared and laid before the Company in general meeting such financial statements and reports as are required by the *Company Act*.

21.5. Every member shall be entitled to be furnished once gratis on demand with a copy of the latest annual financial statement of the Company and, if so required by the *Company Act*, a copy of each such annual financial statement and interim financial statement shall be mailed to each member.

PART 22

NOTICES

22.1. A notice, statement or report may be given or delivered by the Company to any member either by delivery to him or her personally or by sending it by mail to him or her to his or her address as recorded in the register of members. Where a notice, statement or report is sent by mail, service or delivery of the notice, statement or report shall be deemed to be effected by properly addressing, prepaying and mailing the notice, statement or report and to have been given on the day, Saturdays, Sundays and holidays excepted, following the date of mailing. A certificate signed by the Secretary or other officer of the Company or of any other corporation acting in that behalf for the Company that the letter, envelope or wrapper containing the notice, statement or report was so addressed, prepaid and mailed shall be conclusive evidence thereof.

22.2. A notice, statement or report may be given or delivered by the Company to the joint holders of a share by giving the notice to the joint holder first named in the register of members in respect of the share.

22.3. A notice, statement or report may be given or delivered by the Company to any person entitled to a share as a guardian, committee, trustee, curator, tutor, legal personal representative or trustee in bankruptcy of

a member by sending it through the mail prepaid addressed to such person by name or by the title of the representative of the member or by any like description, at the address (if any) supplied to the Company for that purpose by the person claiming to be so entitled, or (until such address has been so supplied) by giving the notice in a manner in which the same might have been given to the member.

22.4. Notice of every general meeting or meeting of members holding a class or series of shares shall be given in a manner hereinbefore authorized to every member holding at the time of the issue of the notice or the date fixed for determining the members entitled to such notice, whichever is the earlier, shares which confer the right to notice of and to attend and vote at any such meeting. No other person except the Auditor of the Company and the Directors of the Company shall be entitled to receive notice of any such meeting.

PART 23

RECORD DATES

23.1. The Directors may fix in advance a date, which shall not be more than the maximum number of days permitted by the *Company Act* preceding the date of any meeting of members or any class or series thereof or of the payment of any dividend or of the proposed taking of any other proper action requiring the determination of members, as the record date for the determination of the members entitled to notice of, or to attend and vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend or for any other proper purpose and, in such case, notwithstanding anything elsewhere contained in these Articles, only members of record on the date so fixed shall be deemed to be members for the purposes aforesaid.

23.2. Where no record date is so fixed for the determination of members as provided in the preceding Article the date on which the notice is mailed or on which the resolution declaring the dividend is adopted, as the case may be, shall be the record date for such determination.

PART 24

SEAL

24.1. The Directors may provide a seal for the Company and may authorize the affixing thereof to any documents by or on behalf of the Company.

PART 25

FIRST PREFERRED SHARES AS A CLASS

The First Preferred Shares shall as a class carry and be subject to the following rights, privileges, restrictions and conditions:

25.1. The First Preferred Shares may be issued at any time or from time to time in one or more series. Before any shares of a series are issued, the board of directors of the Company shall fix the number of shares that will form such series and shall, subject to the limitations set out in the Articles, determine the designation, rights, privileges, restrictions and conditions to be attached to the First Preferred Shares of such series, the whole subject to the filing with the registrar of an amendment to the Memorandum and Articles containing a description of such series including the rights, privileges, restrictions and conditions determined by the Board of Directors. Notwithstanding the foregoing, no series of First Preferred Shares shall be granted the right to vote at any general meeting of the Company or the right to be convertible or exchangeable for Common Shares, directly or indirectly.

25.2. The First Preferred Shares of each series shall rank on a parity with the First Preferred Shares of every other series with respect to dividends and return of capital and shall be entitled to a preference over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its members for the purpose of winding up its affairs. If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of the First Preferred Shares, the First Preferred

Shares of all series shall participate rateably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the First Preferred Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The First Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the First Preferred Shares as a class over the Second Preferred Shares and the Common Shares of the Company and over any other class ranking junior to the First Preferred Shares as may be determined in the case of such series of First Preferred Shares.

25.3. Except as hereinafter referred to or as required by law, the holders of the First Preferred Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the members of the Company.

25.4. The rights, privileges, restrictions and conditions attached to the First Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the First Preferred Shares given as hereinafter specified.

25.5. The approval of the holders of the First Preferred Shares to add to, change or remove any right, privilege, restriction or condition attaching to the First Preferred Shares as a class or in respect of any other matter requiring the consent of the holders of the First Preferred Shares may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by the holders of not less than 75% of the First Preferred Shares then outstanding or passed by the affirmative vote of at least 75% of the votes cast at a meeting of the holders of the First Preferred Shares duly called for that purpose.

The quorum for a meeting of the holders of the First Preferred Shares shall be not less than 25% of the outstanding First Preferred Shares present in person or represented by proxy at such meeting, provided however, that, if at any such meeting, when originally held, the holders of at least 25% of the outstanding First Preferred Shares are not present in person or so represented by proxy within 30 minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than 7 days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of First Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than 25% of all First Preferred Shares then outstanding, may transact the business for which the meeting was originally called.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting and the conduct thereof shall be those from time to time prescribed by these Articles with respect to meetings of members, or if not so prescribed, as required by the Act as in force at the time of the meeting. On every poll taken at every meeting of the holders of the First Preferred Shares as a class, or at any joint meeting of the holders of two or more series of First Preferred Shares, each holder of First Preferred Shares entitled to vote thereat shall have one vote in respect of each First Preferred Share held.

PART 26

SECOND PREFERRED SHARES AS A CLASS

The Second Preferred Shares shall as a class carry and be subject to the following rights, privileges, restrictions and conditions:

26.1. The Second Preferred Shares may be issued at any time or from time to time in one or more series. Before any shares of a series are issued, the board of directors of the Company shall fix the number of shares that will form such series and shall, subject to the limitations set out in the Articles, determine the designation, rights, privileges, restrictions and conditions to be attached to the Second Preferred Shares of such series, the whole subject to the filing with the registrar of an amendment to the Memorandum and Articles containing a description of such series including the rights, privileges, restrictions and conditions determined by the Board of

Directors. Notwithstanding the foregoing, no series of Second Preferred Shares shall be granted the right to vote at any general meeting of the Company or the right to be convertible into or exchangeable for Common Shares, directly or indirectly.

26.2. The Second Preferred Shares of each series shall rank on a parity with the Second Preferred Shares of every other series with respect to dividends and return of capital and shall, subject to the prior rights of the holders of the First Preferred Shares, be entitled to a preference over the Common Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its members for the purpose of winding up its affairs. If cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of the Second Preferred Shares, the Second Preferred Shares of all series shall participate rateably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the Second Preferred Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Second Preferred Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Second Preferred Shares as a class over the Common Shares of the Company and over any other class ranking junior to the Second Preferred Shares as may be determined in the case of such series of Second Preferred Shares.

26.3. Except as hereinafter referred to or as required by law or unless provision is made in the Articles relating to any series of Second Preferred Shares that such class is entitled to vote, the holders of the Second Preferred Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the members of the Company.

26.4. The rights, privileges, restrictions and conditions attached to the Second Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Second Preferred Shares given as hereinafter specified.

26.5. The approval of the holders of the Second Preferred Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Second Preferred Shares as a class or in respect of any other matter requiring the consent of the holders of the Second Preferred Shares may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by the holders of not less than 75% of the Second Preferred Shares then outstanding or passed by the affirmative vote of at least 75% of the votes cast at a meeting of the holders of the Second Preferred Shares duly called for that purpose.

The quorum for a meeting of the holders of the Second Preferred Shares shall be not less than 25% of the outstanding Second Preferred Shares present in person or represented by proxy at such meeting, provided however, that, if at any such meeting, when originally held, the holders of at least 25% of the outstanding Second Preferred Shares are not present in person or so represented by proxy within 30 minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than 7 days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of Second Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than 25% of all Second Preferred Shares then outstanding, may transact the business for which the meeting was originally called.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting and the conduct thereof shall be those from time to time prescribed by these Articles with respect to meetings of members, or if not so prescribed, as required by the Act as in force at the time of the meeting. On every poll taken at every meeting of the holders of the Second Preferred Shares as a class, or at any joint meeting of the holders of two or more series of First Preferred Shares, each holder of Second Preferred Shares entitled to vote thereat shall have one vote in respect of each Second Preferred Share held.

PART 27

COMMON SHARES AND NON VOTING SHARES

The Common Shares and the Non-Voting Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

27.1. Subject to any preference as to the payment of dividends provided to any shares ranking in priority to the Common Shares or the Non-Voting Shares, the holders of Common Shares and of Non-Voting Shares shall, except as otherwise hereinafter provided, be entitled to participate equally with each other as to dividends and the Company shall pay dividends thereon, as and when declared by the Board of Directors of the Company out of moneys properly applicable to the payment of dividends, in amounts per share and at the same time on all such Common Shares and Non-Voting Shares at the time outstanding as the Board of Directors may from time to time determine.

27.2. In the event of the liquidation, dissolution or winding-up of the Company or other distribution of assets of the Company among its members for the purpose of winding-up its affairs, all of the property and assets of the Company which remain after payment to the holders of any shares ranking in priority to the Common Shares and Non-Voting Shares in respect of payment upon liquidation, dissolution or winding-up of all amounts attributed and properly payable to such holders of such other shares in the event of such liquidation, dissolution, winding-up or distribution, shall be paid or distributed equally, share for share, to the holders of the Common Shares and the Non-Voting Shares, without preference or distinction.

27.3. Neither the Common Shares nor the Non-Voting Shares shall be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith the other class is subdivided, consolidated, reclassified or otherwise changed in the same proportion and in the same manner.

27.4.1 The holders of the Common Shares shall be entitled to receive notice of and attend (in person or by proxy) and be heard at all general meetings of the members of the Company (other than separate meetings of the holders of shares of any other class of shares of the Company or any series of shares of such other class of shares) and to vote at all such general meetings with each holder of Common Shares being entitled to one vote per Common Share held at all such meetings.

27.4.2 Notwithstanding the foregoing, every member of the Company entitled to vote at an election of Directors has the right to cast a number of votes equal to the number of votes attached to the Common Shares held by that member multiplied by the number of Directors to be elected, and the member may cast all such votes in favour of one candidate or distribute them among the candidates in such manner as the member sees fit, and where the member has voted for more than one candidate without specifying the distribution of the member's votes among such candidates, the member shall be deemed to have divided that member's votes equally among the candidates for whom the member voted. A separate vote of members shall be taken with respect to each candidate nominated for Director unless a resolution is passed unanimously by those shareholders voting in person or by proxy on the matter permitting two or more persons to be elected by a single resolution. If the number of candidates nominated for Director exceeds the number of positions to be filled, the candidates who receive the least number of votes shall be eliminated until the number of candidates remaining equals the number of positions to be filled. Notwithstanding any other provisions of these Articles, a Director may not be removed from office if the votes cast against his or her removal would be sufficient to elect him or her and such votes could be voted cumulatively at an election at which the same total number of votes were cast and the number of Directors required by these Articles were then being elected.

27.4.3 The holders of the Non-Voting Shares shall be entitled to receive notice of and to attend (in person or by proxy) and be heard at all general meetings of the members of the Company (other than separate meetings of the holders of shares of any other class of shares of the Company or of shares of any series of shares of any such other class of shares other than Common Shares) and shall be entitled to receive all notices of meetings, information circulars and other written information from the Company that the holders of Common Shares are entitled to receive from the Company but not to vote at such general meetings, unless otherwise required by law.

27.5.1 In this Article 27.5, the following terms shall have the following respective meanings:

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (British Columbia) as at the Effective Date;

"**associate**" has the meaning ascribed thereto in the *Securities Act* (British Columbia) as at the Effective Date;

"**Conversion Period**" means the period of time commencing on the eighth day after the Offer Date and terminating on the Expiry Date;

"**Converted Shares**" means Common Shares resulting from the conversion of Non-Voting Shares into Common Shares pursuant to Article 27.5.2;

"**Exclusionary Offer**" means an offer to purchase Common Shares that:

(i) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Common Shares are listed, be made to all or substantially all of the holders of Common Shares who are in a province of Canada to which the requirement applies; and

(ii) is not made concurrently with an offer to purchase Non-Voting Shares that is identical to the offer to purchase Common Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the Offeror, and in all other material respects, and that has no condition attached thereto other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Common Shares,

and for the purposes of this definition if an offer to purchase Common Shares would be an Exclusionary Offer as defined above but for the provisions of subclause (ii), the varying of any term of such offer shall be deemed to constitute the making of a new offer unless an identical variation concurrently is made to the corresponding offer to purchase Non-Voting Shares;

"**Expiry Date**" means the last date upon which holders of Common Shares may accept an Exclusionary Offer;

"**Offer Date**" means the date on which an Exclusionary Offer is made or deemed to be made;

"**Offeror**" means a person or company that makes an offer to purchase Common Shares (the "bidder"), and includes any associate or affiliate of the bidder or any person or company that is disclosed in the offering document relating to such offer to be acting jointly or in concert with the bidder; and

"**transfer agent**" means the transfer agent for the time being for the Common Shares.

27.5.2 Subject to Article 27.5.5, if an Exclusionary Offer is made, each outstanding Non-Voting Share shall be convertible into one fully paid and non-assessable Common Share at the option of the holder thereof exercisable during the Conversion Period. The conversion right provided for in this Article 27.5.2 shall be exercised by notice in writing given to the transfer agent accompanied by the certificate or certificates representing the Non-Voting Shares which the holder desires to convert, and such notice shall be executed by the person registered on the books of the Company as the holder of the Non-Voting Shares, or by his attorney duly authorized in writing, and shall specify the number of Non-Voting Shares which the holder desires to have converted. The holder shall pay any governmental or other tax imposed on or in respect of such conversion. Upon receipt by the transfer agent of such notice and share certificate or certificates, the Company shall issue or cause to be issued a share certificate representing fully paid Common Shares as prescribed above and in accordance with Article 27.5.4. If less than all of the Non-Voting Shares represented by any share certificate are to be converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of Non-Voting Shares represented by the original share certificate which are not to be converted.

27.5.3 An election by a holder of Non-Voting Shares to exercise the conversion right provided for in Article 27.5.2 shall be deemed to also constitute irrevocable elections by such holder (i) to deposit the Converted Shares pursuant to the Exclusionary Offer (subject to such holder's right to subsequently withdraw the shares from the offer in accordance with the terms thereof and applicable law) and (ii) to exercise the right to convert into Non-Voting Shares on a one for one basis, all Converted Shares in respect of which such holder exercises his

right of withdrawal from the Exclusionary Offer or which are not otherwise ultimately taken up and paid for under the Exclusionary Offer (including by way of the abandonment or withdrawal of the Exclusionary Offer without any shares being acquired), and an irrevocable agreement by the holder exercising such rights of conversion not to vote any Converted Shares. Any conversion of Converted Shares into Non-Voting Shares pursuant to such deemed election in respect of which the holder exercises his right of withdrawal from the Exclusionary Offer shall be effective at the time such right of withdrawal is exercised without prejudice to the ability to reconvert or retender. If the right of withdrawal is not exercised, any conversion into Non-Voting Shares pursuant to such deemed election shall be effective:

(a) in respect of an Exclusionary Offer which is completed, immediately following the time by which the Offeror is required under applicable securities legislation to take up and pay for all shares to be acquired by the Offeror under the Exclusionary Offer; and

(b) in respect of an Exclusionary Offer which is abandoned or withdrawn, at the time at which the Exclusionary Offer is abandoned or withdrawn.

27.5.4 No share certificates representing Converted Shares shall be delivered to or to the order of the holders thereof before such shares have been deposited pursuant to the Exclusionary Offer and the transfer agent, on behalf of the holders of the Converted Shares, shall deposit, and the holders of such shares shall be deemed to have irrevocably directed the transfer agent to deposit, pursuant to the Exclusionary Offer, the certificate or certificates representing the Converted Shares. Upon completion of the offer, the transfer agent shall deliver or cause to be delivered to the holders entitled thereto all consideration paid by the Offeror pursuant to the offer in respect of Converted Shares. If Converted Shares are converted into Non-Voting Shares pursuant to the deemed election under Article 27.5.3, the transfer agent shall deliver to the holders entitled thereto a share certificate representing the Non-Voting Shares resulting from the conversion. The Company shall make all arrangements with the transfer agent necessary or desirable to give effect to this Article 27.5.4.

27.5.5 Subject to Article 27.5.6, the conversion right provided for in Article 27.5.2 shall not come into effect if:

(a) prior to the Offer Date there is delivered to the transfer agent and to the Secretary of the Company a certificate or certificates signed by or on behalf of one or more members of the Company owning in the aggregate, as at the Offer Date, more than 50% of the then outstanding Common Shares, exclusive of shares owned immediately prior to the Offer Date by the Offeror, which certificate or certificates shall confirm, in the case of each such shareholder, that such members shall not:

  (i) tender any shares in acceptance of any Exclusionary Offer without giving the transfer agent and the Secretary of the Company written notice of such acceptance or intended acceptance at least seven days prior to the Expiry Date;

  (ii) make any Exclusionary Offer;

  (iii) act jointly or in concert with any person or company that makes an Exclusionary Offer; or

  (iv) transfer any Common Shares, directly or indirectly, during the time at which any Exclusionary Offer is outstanding without giving the transfer agent and the Secretary of the Company written notice of such transfer or intended transfer at least seven days prior to the Expiry Date relating to such Exclusionary Offer, which notice shall state, if known to the transferor, the names of the transferees and the number of Common Shares transferred or to be transferred to each transferee; or

(b) as of the end of the seventh day after the Offer Date there has been delivered to the transfer agent and to the Secretary of the Company a certificate or certificates signed by or on behalf of one or more members of the Company owning in the aggregate more than 50% of the then outstanding Common Shares as at the Offer Date, exclusive of shares owned immediately prior to the Offer Date by the Offeror, which certificate or certificates shall confirm, in the case of each such member:

  (i) the number of Common Shares owned by the member;

(ii) that such member is not making the offer and is not an associate or affiliate of, or acting jointly or in concert with, the person or company making the offer;

(iii) that such member shall not tender any shares in acceptance of the offer, including any varied form of the offer, without giving the transfer agent and the Secretary of the Company written notice of such acceptance or intended acceptance at least seven days prior to the Expiry Date; and

(iv) that such member shall not transfer any Common Shares, directly or indirectly, prior to the Expiry Date without giving the transfer agent and the Secretary of the Company written notice of such transfer or intended transfer at least seven days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of Common Shares transferred or to be transferred to each transferee; or

(c) as of the end of the seventh day after the Offer Date a combination of certificates that comply with either clause (a) or (b) from members of the Company owning in the aggregate more than 50% of the then outstanding Common Shares as at the Offer Date has been delivered to the transfer agent and to the Secretary of the Company.

27.5.6 If a notice referred to in Articles 27.5.5(a)(i), 27.5.5(a)(iv), 27.5.5(b)(iii) or 27.5.5(b)(iv) is given and the conversion right provided for in subsection 27.5.2 has not come into effect, the transfer agent shall either forthwith upon receipt of the notice or forthwith after the seventh day following the Offer Date, whichever is later, determine the number of Common Shares in respect of which there have been delivered certificates that are subsisting and that comply with either Article 27.5.5(a) or 27.5.5(b). For the purpose of this determination, certificates in respect of which such a notice has been delivered shall not be regarded as subsisting, the transfer that is the subject of any notice referred to in Article 27.5.5(a)(iv) or 27.5.5(b)(iv) shall be deemed to have already taken place at the time of the determination, and the transferee in the case of any notice referred to in Article 27.5.5(a)(iv) or 27.5.5(b)(iv) shall be deemed to be a person or company from whom the transfer agent has not received a subsisting certificate unless the transfer agent is otherwise advised either by such notice or by the transferee in writing. If the number of Common Shares so determined does not exceed 50% of the number of then outstanding Common Shares as at the Offer Date, exclusive of Common Shares owned immediately prior to the Offer Date by the Offeror, Article 27.5.5 shall cease to apply and the conversion right provided for in Articles 27.5.2 shall be in effect for the remainder of the Conversion Period.

27.5.7 As soon as is reasonably practicable after the seventh day after the Offer Date, the Company shall send to each holder of Non-Voting Shares a notice advising such holders as to whether they are entitled to convert their Non-Voting Shares into Common Shares pursuant to Article 27.5.2 and the reasons therefor. If such notice discloses that the holders of Non-Voting Shares are not so entitled but it is subsequently determined that they are so entitled by virtue of Article 27.5.6 or otherwise, the Company shall forthwith send another notice to such holders advising them of that fact and the reasons therefor.

27.5.8 If a notice referred to in Article 27.5.7 discloses that the conversion right provided for in Article 27.5.2 has come into effect, the notice shall:

(a) include a description of the procedure to be followed to effect the conversion and to have the Converted Shares tendered under the offer;

(b) include the information as to Article 27.5.3 hereof; and

(c) be accompanied by a copy of the offer and all other material sent to holders of Common Shares in respect of the offer, and as soon as is reasonably practicable after any additional material, including a notice of variation or change, is sent to the holders of Common Shares in respect of the offer, the Company shall send a copy of such additional material to each holder of Non-Voting Shares.

27.5.9 Prior to or forthwith after sending any notice referred to in Article 27.5.7, the Company shall cause a press release to be issued to a Canadian national news wire service describing the contents of the notice.

27.6.1 In this Article 27.6, unless there is something in the subject matter or context inconsistent therewith:

"**business day**" means a day other than a Saturday, a Sunday or any other day that is a statutory or civic holiday in the place where the Company's registered office is located and in the event that any day on which any action is required or permitted to be taken pursuant to these provisions is not a business day such action shall be required or permitted to be taken on the next succeeding day that is a business day; and

"**close of business**" means, with respect to the conversion of any Non-Voting Shares, the normal closing time of the office of the transfer agent for the Non-Voting Shares at which the holder thereof deposits the certificate or certificates representing such shares in exercise of the conversion privilege contained in this Article 27.6.

27.6.2 If the Telecommunications Regulations are changed so that there is no restriction on any non-Canadians (as defined in the Telecommunications Regulations) holding Common Shares in the Company, a holder of one or more Non-Voting Shares shall have the right, at his or her option, at any time after the date of change of the Telecommunications Regulations and prior to the close of business ninety (90) days thereafter (the "Regulatory Conversion Period") to convert, subject to these provisions, any one or more of such Non-Voting Shares into Common Shares on a one for one basis.

27.6.3 The conversion of one or more Non-Voting Shares shall be effected by the deposit of the certificate or certificates representing the same at any time during usual business hours at the option of the holder at any office of any transfer agent of the Company at which the Non-Voting Shares are transferable accompanied by a written instrument of surrender in form satisfactory to the Company duly executed by the registered holder or his attorney duly authorized in writing, in which instrument such holder may elect to convert part only of the Non-Voting Shares represented by such certificate or certificates, in which event the Company shall issue and deliver or cause to be delivered to such holder, at the expense of the Company, a new certificate representing the Non-Voting Shares represented by such certificate or certificates which have not been converted.

27.6.4 As promptly as practicable after the deposit of any Non-Voting Shares for conversion, the Company shall issue and shall deliver or cause to be delivered to or upon the written order of the holder of the Non-Voting Shares so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of Common Shares to which such holder is entitled. Subject to the following provisions of this Article 27.6.4, such conversion shall be deemed to have been made at the close of business on the date such Non-Voting Shares shall have been deposited for conversion, so that the rights of the holder of such Non-Voting Shares as the holder thereof shall cease at such time and the person or persons entitled to receive Common Shares upon such conversion shall be treated for all purposes as having become the holder or holders of record of such Common Shares at such time; provided, however, that no such deposit on any date when the Company's registers of transfers of Common Shares shall be properly closed shall be effective to constitute the person or persons entitled to receive Common Shares upon such conversion as the holder or holders of record of such Common Shares on such date, but such deposit shall be effective to constitute the person or persons entitled to receive such Common Shares as the holder or holders of record thereof for all purposes. For these purposes the date of deposit of any Non-Voting Share for conversion shall be deemed to be the date when the certificate representing such Non-Voting Share is received by a transfer agent of the Company as provided in this Article 27.6.4.

27.6.5 If the Telecommunications Regulations are changed so that there is no restriction on any non-Canadians (as defined in the Telecommunications Regulations) holding Common Shares in the Company and following the Regulatory Conversion Period there are Non-Voting Shares still outstanding, all holders of Non-Voting Shares shall be deemed to have exercised their right to convert the Non-Voting Shares held by them to Common Shares upon receipt by all of the holders of written notice from the Company stating that the Company is requiring all holders to convert their Non-Voting Shares to Common Shares on the date specified in such notice in the manner specified in this Article 27.6 and the date specified in the notice shall be the date of conversion. Upon such deemed conversion, pursuant to this Article 27.6.5, all holders of Non-Voting Shares shall, as of the date of conversion, be deemed to be holders of Common Shares to which they are entitled and the provisions of Article 27.6.3 and 27.6.4 hereof shall apply to the holders of Non-Voting Shares with respect to

the issue and delivery of certificates for Common Shares in exchange for the Non-Voting Shares which are deemed to be converted.

27.7.1 In this Article 27.7 unless there is something in the subject matter or context inconsistent therewith:

"**Constrained Class**" means the class of persons each of whom is a non-Canadian as defined in the Telecommunications Regulations;

"**Maximum Aggregate Holdings**" means the maximum number of Common Shares that may be owned or controlled by persons in the Constrained Class in accordance with the Telecommunications Regulations so that, when added to all other voting shares (as defined in the Telecommunications Regulations) owned or controlled by the Constrained Class, the Company will be and will continue to be a Telecommunications Common Carrier Holding Company;

"**Telecommunications Common Carrier**" means any entity which is a "telecommunications common carrier" within the meaning of the Telecommunications Act; and

"**Telecommunications Common Carrier Holding Company**" means any "qualified corporation" (as each such expression is defined in the Telecommunications Regulations).

27.7.2 The Company shall provide notice to each holder of Common Shares at least ten (10) days' before the record date in respect of each general meeting of the Company at which the Non-Voting Shares will be entitled to vote as a class. In such event, and to the extent that, after taking in to account the conversion, the Constrained Class would continue to hold no more than the Maximum Aggregate Holdings, each outstanding Common Share shall be convertible into one Non-Voting Share on a one for one basis. Notice to each holder of Common Shares shall be deemed to have been given if such notice is published once in each of the cities in which a register for holders of Common Shares is maintained, such publication to be made in a daily newspaper (or, if no daily newspaper is being published, in such other publication in the area as the Company may determine) in the English language of general circulation in the designated city.

27.7.3 To exercise such conversion right a member holding Common Shares or his or her attorney duly authorized in writing shall:

(a) provide written notice to the transfer agent of the exercise of such right and of the number of Common Shares in respect of which the right is being exercised;

(b) deliver to the transfer agent the share certificate or certificates representing the Common Shares in respect of which the right is being exercised; and

(c) pay any governmental or other tax imposed on or in respect of such conversion.

27.7.4 In order to be entitled to convert Common Shares, the holder must satisfy the conditions of this Article 27.7 no later than the fifth business day preceding the date of the meeting (or any adjourned or postponed meeting). The said Common Shares shall be deemed to be converted at the close of business day on such business day (in this paragraph referred to as the "Conversion Date") and from and after the Conversion Date such Common Shares as are converted shall cease to be entitled to dividends (except dividends for which the record date was on or prior to the Conversion Date) and the holders thereof shall not be entitled to exercise any of the rights of the holders of Common Shares in respect thereof (including any applicable voting rights) but shall be entitled to dividends (except dividends for which the record date was on or prior to the Conversion Date) and the rights of holders of Non-Voting Shares (including any applicable voting rights). In particular, irrespective of the fact that the holders of the Non-Voting Shares issued upon the conversion of the Common Shares were not members as of the record date for the meeting of holders of Non-Voting Shares, they shall be entitled to vote at the meeting of holders of Non-Voting Shares and shall not be entitled to vote as holders of Common Shares.

27.7.5 Notwithstanding the foregoing, the Company shall only be obliged to convert Common Shares so tendered for conversion to the extent that, after taking into account the conversions, such conversion would not result in the Constrained Class holding more than the Maximum Aggregate Holdings and if such conversion of any such Common Shares would result in the Maximum Aggregate Holdings being exceeded, the Company shall only be obliged to convert such lesser number of Common Shares of each holder tendering Common Shares for

conversion as is such holder's pro rata share of the number of Common Shares which may be converted without causing the Maximum Aggregate Holdings to be exceeded, treating Canadians and non-Canadians separately. Upon the acceptance of a members' exercise of the conversion right in respect of the Common Shares under this Article 27.7, a member shall be entitled to have issued for his or her benefit a share certificate representing fully-paid Non-Voting Shares on the basis of one Non-Voting Share for each Common Share converted. If less than all of the Common Shares represented by any certificate are converted, a new certificate for the balance shall be issued.

27.8. The holders of Common Shares of the Company shall have the right to convert Common Shares which are "excess voting shares" into Non-Voting Shares in the manner and subject to the provisions as provided in Article 28 hereof.

27.9. Save as aforesaid, each Common Share and each Non-Voting Share shall have the same rights and attributes and be the same in all respects.

27.10. The provisions of this Article 27, may be deleted, amended, modified or varied in whole or in part upon the approval of any such amendment being given by the holders of the Common Shares and the Non-Voting Shares by special resolution and as required by the *Company Act*.

PART 28

OWNERSHIP AND VOTING RESTRICTIONS

28.1. In this Article, unless the context otherwise requires:

"**Arrangement**" means the arrangement in respect of BC TELECOM Inc. under the provisions of section 192 of the *Canada Business Corporations Act* and the arrangement in respect of TELUS Corporation under the provisions of section 186 of the *Business Corporations Act* (Alberta);

"**Canadian**" has the meaning set forth in the Telecommunications Regulations;

"**Directors' determination**" and similar expressions mean a determination made by the Directors of the Company in accordance with Article 28.17;

"**disposition notice**" has the meaning set forth in Article 28.8;

"**excess voting shares**" means voting shares, beneficially owned or controlled in contravention of the non-Canadian share constraint;

"**non-Canadian**" has the meaning set forth in the Telecommunications Regulations;

"**non-Canadian share constraint**" has the meaning set forth in Article 28.4;

"**non-Canadian voting constraint**" has the meaning set forth in Article 28.7;

"**Predecessor Companies**" mean BC TELECOM Inc. and TELUS Corporation;

"**principal stock exchange**" means, at any time, the stock exchange in Canada on which the highest volume of voting shares is generally traded at that time, as determined by the Directors;

"**Restricted Percentage**" means 33⅓% or such other percentage as may from time to time be prescribed by the Telecommunications Regulations as the percentage of voting shares which may be beneficially owned and controlled, other than by Canadians, in order for a corporation to be a qualified corporation as defined in the Telecommunications Regulations, provided that if no such percentage is prescribed, it shall be deemed to mean 100%;

"**shareholder**" in this Article means member;

"**shareholder default**" has the meaning set forth in paragraph (d) of Article 28.8;

"**shareholder's declaration**" means a declaration made in accordance with Article 28.18; and

"**suspension**" has the meaning set forth in Article 28.10 and "suspend", "suspended" and similar expressions have corresponding meanings;

"**voting share**" means a share of any class of shares of the Company carrying voting rights under all circumstances or by reason of an event that has occurred and is continuing or by reason of a condition that has been fulfilled, and includes:

(a) a security that is convertible into such a share at the time a calculation of the percentage of shares owned and controlled by Canadians is made; and

(b) an option or a right to acquire such a share, or the security referred to in paragraph (a), that is exercisable at the time the calculation referred to in that paragraph is made.

28.2. The provisions of Sections 3, 4, 15 and 27 of the Telecommunications Regulations are deemed to be incorporated in this Article 28. Any provision of this Article 28 that may be read in a manner that is inconsistent with the Telecommunications Regulations shall be read so as to be consistent therewith.

28.3. For greater certainty, no person is presumed to be an associate of any other person for purposes of this Article 28 solely by reason that one of them has given the other the power to vote or direct the voting of voting shares of a class of voting shares at a meeting of the holders of that class pursuant to a revocable proxy where the proxy is solicited solely by means of an information circular issued in a public solicitation of proxies that is made in respect of all voting shares of that class and in accordance with applicable law.

28.4. Non-Canadian members shall not beneficially own or control, otherwise than by way of security only, in the aggregate more than the Restricted Percentage of the issued and outstanding voting shares of the Company. (The foregoing prohibition is referred to in this Article 28 as the "non-Canadian share constraint".)

28.5. In the event that it appears from the central securities register of the Company that, or in the event of a Directors' determination that there is a contravention of the non-Canadian share constraint:

(a) the Company may pursuant to a Director's determination, make a public announcement, whether by press release, newspaper advertisements or otherwise, reasonably expected to inform the markets in which voting shares are traded of the contravention; and

(b) the Company may refuse to:

(i) accept any subscription for voting shares from any non-Canadian;

(ii) issue any voting shares to any non-Canadian;

(iii) register or otherwise recognize the transfer of any voting shares from any Canadian to any non-Canadian;or

(iv) purchase or otherwise acquire any voting shares, except as provided herein.

28.6. In the event of a Directors' determination that there is a contravention of the non-Canadian share constraint and that to do so would be practicable and would not be unfairly prejudicial to, and would not unfairly disregard the interests of, persons beneficially owning or controlling voting shares who are non-Canadians, the Company shall send a disposition notice to the registered holders of such of those voting shares as shall be chosen on the basis of inverse order to the order of registration of all non-Canadians. For the purposes of determining the inverse orders of registration, the Company shall use the inverse order of registration as shown on the registers of holders of the voting shares of the Company and the Predecessor Companies (excluding those registrations made on the Effective Date as part of the Arrangement or as part of any transaction effected by either of the Predecessor Companies with any particular shareholder or affiliate thereof on or prior to the Effective Date and prior to the steps of the Arrangement, which, if they involve an issuance of shares in return, directly or indirectly, for the purchase of other shares, and/or any transfers of shares, shall be deemed to have been registered as of the date of registration originally applicable to the shares being purchased prior to any such transfers thereof).

28.7. The Company may, by Director's determination, suspend all rights of a member to vote that would otherwise be attached to any voting shares beneficially owned, or controlled, or considered by this Article 28 to be beneficially owned, or controlled, by non-Canadians, in the order as hereinafter provided, so that the proportion of the voting shares beneficially owned, or controlled, or considered by the Telecommunications Regulations to be beneficially owned, or controlled, by non-Canadians and with respect to which voting rights

are not suspended, is reduced to not more than the Restricted Percentage of the total issued and outstanding voting shares of the Company. The voting rights referred to above shall be suspended in an order inverse to the date of registration in the manner as provided in Article 28.6.

28.8. Any notice (a "disposition notice") required to be sent to a registered holder of voting shares pursuant to Article 28.6:

(a) shall, in addition to any other information which may be required by the Telecommunications Regulations specify in reasonable detail the nature of the contravention of the non-Canadian share constraint, the number of voting shares determined to be excess voting shares and the consequences of the contravention specified in this Article 28;

(b) shall request an initial or further shareholder's declaration;

(c) shall specify a date, which shall be not less than 60 days, after the date of the disposition notice, by which the excess voting shares are to be sold or otherwise disposed of or, if the Directors determine it to be in the interests of the Company to permit a conversion, converted into Non-Voting Shares as hereinafter provided in Article 28.15; and

(d) shall state that unless the registered holder either:

(i) sells or otherwise disposes of or converts the excess voting shares into Non-Voting Shares by the date specified in the disposition notice on a basis that does not result in any contravention of the non-Canadian share constraint and provides to the Company, in addition to the shareholder's declaration requested pursuant to paragraph (b) of this Article 28.8, written evidence satisfactory to the Company of such sale, other disposition or conversion; or

(ii) provides to the Company, in addition to the shareholder's declaration requested pursuant to paragraph (b) of this Article 28.8, written evidence satisfactory to the Company that no such sale, other disposition or conversion of excess voting shares is required;

such default (a "shareholder default") shall result in the consequence of suspension of voting rights pursuant to Article 28.10 and may result in the consequence of sale or conversion in accordance with Article 28.12 or 28.15 or repurchase or redemption in accordance with Article 28.13, and shall specify in reasonable detail the nature and timing of those consequences.

28.9. In the event that, following the sending of a disposition notice, written evidence is submitted to the Company for purposes of subparagraph (d)(ii) of Article 28.8, the Company shall assess the evidence as soon as is reasonably practicable and in any event shall give a second notice to the person submitting the evidence not later than 10 days after the receipt thereof stating whether the evidence has or has not satisfied the Company that no sale or other disposition of excess voting shares is required. If the evidence has so satisfied the Company, such disposition notice shall be cancelled and such second notice shall so state. If the evidence has not so satisfied the Company, such second notice shall reiterate the statements required to be made in such disposition notice pursuant to paragraphs (c) and (d) of Article 28.8. In either case, the 60 day period referred to in paragraph (c) of Article 28.8 shall be automatically extended to 60 days following the date of the second notice.

28.10. In the event of a shareholder default in respect of any registered holder of voting shares, then, without further notice to the registered holder, the Company may suspend all rights of a shareholder to vote that would otherwise be attached to any voting shares beneficially owned and controlled by non-Canadians in the inverse order of registration as set forth in Article 28.6 so that the non-Canadian share constraint is not contravened.

28.11. The Directors shall cancel any suspension of voting shares of a registered holder and reinstate the registered holder to the securities register of the Company for all purposes if they determine that, following the cancellation and reinstatement, none of such voting shares will be beneficially owned or controlled in contravention of the non-Canadian share constraint. For greater certainty, any such reinstatement shall permit, from and after the reinstatement, the exercise of all voting rights attached to the voting shares so reinstated but have no retroactive effect.

28.12. In the event of a shareholder default in respect of any registered holder of voting shares, the Company may elect by Directors' determination to sell, on behalf of the registered holder, the excess voting shares thereof on the terms set forth in Article 28.12 and Article 28.14 or to convert the excess voting shares into Non-Voting Shares on the terms set forth in Article 28.15.

28.12.1 The Company may sell any excess voting shares in accordance with this Article 28.12:

(a) on the principal stock exchange; or

(b) if there is no principal stock exchange, on such other stock exchange or organized market on which the voting shares are then listed or traded as the Directors shall determine; or

(c) if the voting shares are not then listed on any stock exchange or traded on any organized market, in such other manner that is intended to obtain fair market value for the shares as the Directors shall determine.

28.12.2 The net proceeds of sale of excess voting shares sold in accordance with this Article 28.12 shall be the net proceeds after deduction of any commission, tax or other cost of sale.

28.12.3 For all purposes of a sale of excess voting shares in accordance with this Article 28.12, the Company is the agent and lawful attorney of the registered holder and the beneficial owner of the excess voting shares.

28.13. In the event of a shareholder default in respect of any registered holder of voting shares and in the event that the Directors determine that a sale of excess voting shares in accordance with Article 28.12 would have a material adverse effect on the market value of the shares, the Company may elect by Directors' determination, subject to applicable law, to repurchase or redeem the excess voting shares thereof, without further notice thereto, on the terms set forth in Article 28.13 and Article 28.17.

28.13.1 The price paid by the Company to repurchase or redeem any excess voting shares in accordance with this Article 28.13 shall be:

(a) the average of the closing prices per share of the voting shares on the principal stock exchange (or, if there is no principal stock exchange or if the requisite trading of voting shares has not occurred on the principal stock exchange, such other stock exchange or such other organized market on which such requisite trading has occurred as the Directors shall determine) over the last 10 trading days on which at least one board lot of voting shares has traded on the principal stock exchange (or such other stock exchange or such other organized market) in the period ending on the trading day immediately preceding the repurchase or redemption date; or

(b) if the requisite trading of voting shares has not occurred on any stock exchange or other organized market, at their fair market value as of the date of repurchase or redemption as the Directors shall determine.

28.14.1 In the event of any sale or repurchase or redemption of excess voting shares in accordance with Article 28.12 or 28.13, respectively, the Company shall, not later than 10 days thereafter, deposit an amount equal to the amount of the net proceeds of sale or the repurchase or redemption price, respectively, in a special account in any bank or trust company in Canada selected by it. The amount of the deposit, less the reasonable costs of administration of the special account, shall be payable to the registered holder of the excess voting shares sold or repurchased or redeemed on presentation and surrender by the registered holder to that bank or trust company of the certificate or certificates representing the excess voting shares. Any interest earned on any amount so deposited shall accrue to the benefit of the Company.

28.14.2 From and after any deposit made pursuant to Article 28.14.1, the registered holder shall not be entitled to any of the remaining rights of a registered holder in respect of the excess voting shares sold or repurchased or redeemed, other than the right to receive the funds so deposited on presentation and surrender of the certificate or certificates representing the excess voting shares sold or repurchased or redeemed.

28.14.3 If a part only of the voting shares represented by any certificate are sold or repurchased or redeemed in accordance with Article 28.12 or 28.13, respectively, the Company shall, on presentation and

surrender of such certificate and at the expense of the registered holder, issue a new certificate representing the balance of the voting shares.

28.14.4 So soon as is reasonably practicable after, and, in any event, not later than 30 days after, a deposit is made pursuant to Article 28.14.1, the Company shall send a notice to the registered holder of the excess voting shares sold or repurchased or redeemed and the notice shall, in addition to any other information required by the Telecommunications Regulations, state:

(a) that a specified number of voting shares has been sold, repurchased or redeemed, as the case may be;

(b) the amount of the net proceeds of sale or the repurchase or redemption price, respectively;

(c) the name and address of the bank or trust company at which the Company has made the deposit of the net proceeds of sale or the repurchase or redemption price, respectively; and

(d) all other relevant particulars of the sale, repurchase or redemption, respectively.

28.14.5 For greater certainty, the Company may sell, repurchase or redeem excess voting shares in accordance with Article 28.12 or 28.13, respectively, despite the fact that the Company does not possess the certificate or certificates representing the excess voting shares at the time of the sale or repurchase or redemption. If, in accordance with Article 28.12, the Company sells excess voting shares without possession of the certificate or certificates representing the excess voting shares, the Company shall issue to the purchaser of such excess voting shares or its nominee a new certificate or certificates representing the excess voting shares sold. If, in accordance with Article 28.12 or 28.13, the Company sells or repurchases or redeems excess voting shares without possession of the certificate or certificates representing the excess voting shares and, after the sale or repurchase or redemption, a person establishes that it is a bona fide purchaser of the excess voting shares sold or repurchased or redeemed, then, subject to applicable law:

(a) the excess voting shares held or beneficially owned by the bona fide purchaser are deemed to be, from the date of the sale or repurchase or redemption by the Company, as the case may be, validly issued and outstanding voting shares in addition to the excess voting shares converted and the voting rights applicable thereto shall be restored.

28.15. Upon receipt by the shareholder of a disposition notice that shareholder may, and in the event of a shareholder default in respect of any registered holder of voting shares, the Company may elect by Director's determination, without further notice, to, convert the excess voting shares into Non-Voting Shares, on a one for one basis on the terms provided in this Article 28.15. Notwithstanding the foregoing the right of conversion contained herein shall not be available if at the time of the exercise thereof there are no Non-Voting Shares issued and outstanding.

28.15.1 The shareholder receiving the disposition notice may exercise the right of conversion by the deposit of the certificate or certificates representing the excess voting shares at any time during usual business hours at the option of the holder at any office of any transfer agent of the Company at which the Common Shares are transferable accompanied by a written instrument of surrender in form satisfactory to the Company duly executed by the registered holder or his attorney duly authorized in writing, in which instrument such holder may elect to convert only the excess voting shares represented by such certificate or certificates, in which event the Company shall issue and deliver or cause to be delivered to such holder, at the expense of the registered holder, a new certificate representing the voting shares represented by such certificate or certificates which have not been converted.

28.15.2 As promptly as practicable after the deposit of any excess voting shares for conversion, the Company shall issue and shall deliver or cause to be delivered to or upon the written order of the holder of the voting shares so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of Non-Voting Shares to which such holder is entitled. Such conversion shall be deemed to have been made at the close of business on the date such excess voting shares shall have been deposited for conversion, so that the rights of the holder of such voting shares as the holder thereof shall cease at such time and the person or persons entitled to receive Non-Voting Shares upon such conversion shall be treated for all purposes as having become the holder or holders of record of such Non-Voting Shares at such time; provided, however, that no such deposit on any date when the Company's registers of

transfers of Non-Voting Shares shall be properly closed shall be effective to constitute the person or persons entitled to receive Non-Voting Shares upon such conversion as the holder or holders of record of such Non-Voting Shares on such date, but such deposit shall be effective to constitute the person or persons entitled to receive such Non-Voting Shares as the holder or holders of record thereof for all purposes at the close of business on the next succeeding day on which such registers of transfers are open. For these purposes the date of deposit of any excess voting shares for conversion shall be deemed to be the date when the certificate representing such excess voting shares are received by a transfer agent of the Company as provided in this Article 27.15.1.

28.15.3 In the event of any conversion of excess voting shares in accordance with Article 28.15, the Company shall, forthwith, issue or cause to be issued to the registered holder of such excess voting shares a share certificate representing the excess voting shares converted to Non-Voting Shares and shall cause such holder to be entered on the register of the Non-Voting Shares.

28.15.4 From and after the issue of any certificate for Non-Voting Shares pursuant to Article 28.15.3, the registered holder shall not be entitled to any of the remaining rights of a registered holder in respect of the excess voting shares converted, other than the right to receive the certificate for the Non-Voting Shares against surrender of the certificate or certificates representing the excess voting shares converted.

28.15.5 If a part only of the voting shares represented by any certificate are converted in accordance with Article 28.15.3, the Company shall, on presentation and surrender of such certificate and at the expense of the registered holder, issue a new certificate representing the balance of the voting shares.

28.15.6 So soon as is reasonably practicable after, and, in any event, not later than 30 days after, the issue of a certificate for the Non-Voting Shares pursuant to Article 28.15.3, the Company shall send a notice to the registered holder of the excess voting shares converted and the notice shall, in addition to any other information required by the Telecommunications Regulations, state:

(a) that a specified number of voting shares have been converted;

(b) the name and address of the transfer agent at which the certificate for the Non-Voting Shares is held; and

(c) all other relevant particulars of the conversion.

28.16. Notwithstanding any other provision of this Article 28, a contravention of the non-Canadian share constraint shall have no consequences except those that are expressly provided for in this Article 28. For greater certainty but without limiting the generality of the foregoing:

(a) no transfer, issue or ownership of, and no title to, voting shares;

(b) no resolution of members (except to the extent that the result thereof is affected as a result of a directors' determination under Article 28.7); and

(c) no act of the Company, including any transfer of property to or by the Company;

shall be invalid or otherwise affected by any contravention of the individual share constraint or the non-Canadian share constraint or the failure to make the adjustment required pursuant to the non-Canadian voting constraint.

28.17. The Directors shall make any Directors' determination contemplated by this Part 28:

(a) after the relevant shareholder's declarations have been requested and received by the Company, only:

(i) on a basis consistent with those shareholder's declarations; or

(ii) if the Directors are of the opinion that the shareholder's declarations do not contain adequate or accurate information if the Directors believe and have reasonable grounds for believing that they will not be provided with shareholder's declarations that do contain adequate and accurate information; or

(b) whether or not any shareholder's declaration has been requested or received by the Company, only if the Directors believe and have reasonable grounds for believing that they have sufficient information to make the determination, that the consequences of the Directors' determination would not be inequitable to those affected by it and that it would be impractical, under all the circumstances, to request or to await the receipt of any shareholder's declaration;

and in any case, only subject to and in accordance with the Telecommunications Regulations.

28.17.1 In administering the provisions of this Article 28, including, without limitation, in making any Directors' determination in accordance with Article 28.17 or otherwise, the Directors may rely on any information on which the Directors consider it reasonable to rely in the circumstances. Without limiting the generality of the foregoing, the Directors may rely upon any shareholder's declaration, the securities register of the Company, the knowledge of any director, officer or employee of the Company or any advisor to the Company and the opinion of counsel to the Company.

28.17.2 In administering the provisions of this Article 28, including, without limitation, in making any Directors' determination, the Directors shall act honestly and in good faith. Provided that the Directors so act, they shall not be liable to the Company and neither they nor the Company shall be liable to any holder or beneficial owner of voting securities or any other person for, nor with respect to any matter arising from or related to, any act or omission to act in relation to this Article 28.

28.17.3 Any Directors' determination required or contemplated by this Article 28 shall be expressed and conclusively evidenced by a resolution duly adopted.

28.18.1 For purposes of monitoring the compliance with and of enforcing the provisions of this Article 28, the Directors may require that any registered holder or beneficial owner, or any other person of whom it is, in the circumstances, reasonable to make such request, file with the Company or its registrar and transfer agent a completed shareholder's declaration. The Directors shall determine from time to time written guidelines with respect to the nature of the shareholder's declaration to be requested, the times at which shareholder's declarations are to be requested and any other relevant matters relating to shareholder's declarations.

28.18.2 A shareholder's declaration shall be in the form from time to time determined by the Directors pursuant to Article 28.18.1 and, without limiting the generality of the foregoing, may be required to be in the form of a simple declaration in writing or a statutory declaration under the *Canada Evidence Act*. Without limiting the generality of its contents, any shareholder's declaration may be required to contain information with respect to:

(a) whether the person is the beneficial owner of or controls particular voting securities or whether any other person is the beneficial owner of or controls those voting securities; and

(b) whether the person or any other beneficial owner of the voting securities is a Canadian or non-Canadian.

28.19. The provisions of this Article 28 shall cease to be binding on the Company and its shareholders upon the repeal of the Telecommunications Regulations and shall cease to be applicable and binding to the extent permitted by the Telecommunications Act from time to time.

28.20. No power of the Directors hereunder may be delegated to any committee, person or persons, despite anything to the contrary contained in these Articles.

INTERIM ORDERS

Action No. A983181
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF section 192 of the *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c. C-44, AS AMENDED

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY BC TELECOM INC., TELUS CORPORATION, BCT.TELUS COMMUNICATIONS INC. and 3481646 CANADA INC. INVOLVING BC TELECOM INC. AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES AND TELUS CORPORATION AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC.

BEFORE	)	AT THE COURT HOUSE, IN THE CITY OF
	)	
MASTER BAKER	)	VANCOUVER, BRITISH COLUMBIA, ON MONDAY,
	)	
	)	THE 7TH DAY OF DECEMBER, 1998

ORDER

THE APPLICATION of the Petitioner, BC TELECOM, coming on for hearing at British Colombia on the 7th day of December, 1998, AND ON hearing J. Kenneth McEwan, counsel for the Petitioner and no one appearing on behalf of the Director appointed under the Canada Business Corporations Act, R.S.C. 1985 c. C-44, as amended, although duly served; AND ON reading the Affidavit of Ian D. Mansfield, sworn on the 1ST day of December, 1998;

THIS COURT ORDERS THAT:

BC TELECOM MEETING

1. BC TELECOM Inc. ("BC TELECOM") shall call, hold and conduct a meeting (the "BC TELECOM Meeting") of the holders of common shares in the capital of BC TELECOM (the "BC TELECOM Common Shareholders") and the holders of options to purchase BC TELECOM common shares under the BC TELECOM Share Option Plan and BC TELECOM Long-Term Incentive Share Option Plan (the "BC TELECOM Optionholders") to be held at the City of Vancouver in the Province of British Columbia at the Park Ballroom, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, at 10:00 a.m. (Pacific Standard time) on the 21st day of January, 1999, for the purpose of:

(a) considering and, if deemed advisable, approving with or without variation, a special resolution substantially in the form of the BC TELECOM special resolution (the "BC TELECOM Special Resolution") set forth in Appendix A to the Joint Management Proxy Circular (the "Circular") marked as Exhibit "A" to the Affidavit of Ian D. Mansfield approving a proposed arrangement (the "Arrangement") involving BC TELECOM and the BC TELECOM Common Shareholders and the BC TELECOM Optionholders and TELUS Corporation ("TELUS") and the holders of common shares and options to purchase common shares of TELUS and BCT.TELUS Communications Inc. ("BCT.TELUS") and 3481646 Canada Inc. on the terms and conditions set forth in the plan of arrangement (the "Plan of Arrangement") annexed as Schedule "A" to the amended and restated arrangement agreement effective October 27, 1998, (the "Arrangement Agreement"); and

(b) transacting such other business as may properly be brought before the BC TELECOM Meeting.

2. The BC TELECOM Common Shareholders and BC TELECOM Optionholders (collectively, the "BC TELECOM Shareholders") shall vote on the BC TELECOM Special Resolution together as a single class.

The votes of BC TELECOM Common Shareholders and BC TELECOM Optionholders shall be recorded separately and the results shall be available to the Court on the application by BC TELECOM to approve the Arrangement.

3. BC TELECOM shall mail the Notice of the BC TELECOM Meeting, the Notice to BC TELECOM Shareholders of Petition to the Supreme Court of British Columbia, an appropriate form of Proxy, the Circular (in substantially the form set forth at Exhibit "A" to the Affidavit of Ian D. Mansfield, with such amendments as are not inconsistent with the provisions of this Order) and this Order to the BC TELECOM Shareholders as shown on the register or registers of shareholders, in the case of BC TELECOM Common Shareholders, and as shown in the records of BC TELECOM, in the case of BC TELECOM Optionholders at the close of business on December 9, 1998 (the "BC TELECOM Record Date") by mailing same by prepaid Canada Post Corporation's XPRESSPOST to such BC TELECOM Shareholders at the latest address for such BC TELECOM Shareholders as shown in the registers or records of BC TELECOM or its registrar and transfer agent, and to the Director appointed under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "CBCA"), at least 21 days prior to the date of the BC TELECOM Meeting excluding the date of mailing and the date of the BC TELECOM Meeting.

4. The accidental omission or delay in giving notice of the BC TELECOM Meeting or the non-receipt by any person of such notice shall not invalidate any resolution passed or proceedings taken at the BC TELECOM Meeting.

CONDUCT OF BC TELECOM MEETING

5. The BC TELECOM Meeting shall be called, held and conducted in accordance with the CBCA and the Articles and By-laws of BC TELECOM, subject to the provisions of this Order.

6. Each BC TELECOM Common Shareholder entitled to vote on the BC TELECOM Special Resolution shall be entitled to one vote for each BC TELECOM common share held and each BC TELECOM Optionholder entitled to vote on the BC TELECOM Special Resolution shall be entitled to one vote for each BC TELECOM common share which a BC TELECOM Optionholder would receive upon valid exercise of his or her BC TELECOM Options held.

7. A quorum at the BC TELECOM Meeting shall be at least two persons present, in person or by proxy, holding or representing not less than 10% of the votes attached to the BC TELECOM common shares and BC TELECOM common shares issuable upon valid exercise of BC TELECOM options, entitled to vote on the BC TELECOM Special Resolution at the BC TELECOM Meeting, provided that if no quorum is present within 30 minutes of the appointed time of the BC TELECOM Meeting, such meeting shall stand adjourned to a fixed time and place as specified by the Chairman of the BC TELECOM Meeting.

8. The BC TELECOM Meeting, once commenced, may be adjourned from time to time and no further notice of such adjournment or the holding of any adjourned meeting or meetings need be given thereafter.

9. The majority required to pass the BC TELECOM Special Resolution at the BC TELECOM Meeting shall be

(i) at least 66⅔% of the votes cast by the BC TELECOM Common Shareholders and the BC TELECOM Optionholders who vote, in person or by proxy, voting together; and

(ii) at least a majority of the votes cast by the BC TELECOM Common Shareholders and the BC TELECOM Optionholders, other than Anglo-Canadian Telephone Company, who vote, in person or by proxy, voting together.

10. The only persons entitled to vote at the BC TELECOM Meeting, either in person or by proxy, shall be the registered BC TELECOM Common Shareholders and BC TELECOM Optionholders, as at the close of business on the BC TELECOM Record Date, subject to the provisions of the CBCA with respect to persons who become registered holders of BC TELECOM Common Shares after that date.

11. The only persons entitled to attend and speak at the BC TELECOM Meeting shall be the BC TELECOM Shareholders or their authorized representatives, together with BC TELECOM's directors and officers and its auditors, advisors and counsel and the Director appointed under the CBCA.

BC TELECOM DISSENT RIGHTS

12. A BC TELECOM Shareholder shall have the right to dissent from the BC TELECOM Special Resolution in accordance with the provisions of section 190 of the CBCA, as if that section applied to the proposed Arrangement, as modified by this Order, including:

(a) for any BC TELECOM Shareholder to be entitled to dissent, the written objection of that BC TELECOM Shareholder must be received on or before 5:00 p.m. on January 20, 1999 (Pacific Standard time) by the Corporate Secretary of BC TELECOM in care of Montreal Trust Company of Canada at 510 Burrard Street, Vancouver, British Columbia, or be delivered to the Chairman of the BC TELECOM Meeting before the commencement of the BC TELECOM Meeting;

(b) the steps under subsections 190(6) and (7), and following, are only required or available if a certificate of arrangement has been issued by the Director and has become effective;

(c) a dissenting BC TELECOM Shareholder's rights as a BC TELECOM Shareholder or a BC TELECOM Optionholder, as the case may be, will be reinstated under subsection 190(11), in addition to the grounds specified in that subsection, where:

(i) the Arrangement Agreement is terminated; or

(ii) the application by BC TELECOM to this Court for approval of the Arrangement is refused and all appeal rights in respect of such refusal have been exhausted without success.

(d) the action approved by the resolution referred to in subsections 190(12), (15) and (23) means the issuance of the Certificate of Arrangement;

(e) the court for the purposes of section 190 and as referred to therein means this Court;

(f) after the effective date of the Arrangement, all actions to be taken by BC TELECOM under Section 190 shall be assumed by and taken by BCT.TELUS;

(g) any dissenting BC TELECOM Optionholder will not be required to deliver on deposit any certificate as required by subsection 190(8) and BC TELECOM shall not be required to comply with subsection 190(10) with respect thereto;

(h) all notices required or permitted under section 190 may be given by prepaid registered mail; and

(i) a dissenting BC TELECOM Shareholder is entitled to appear at the application for the final order, provided that a notice of intention to appear has been filed and served in accordance with paragraph 16 of this Order.

13. Notice to the BC TELECOM Shareholders of their right to dissent with respect to the BC TELECOM Special Resolution and to receive, subject to the provisions of this Order, the fair value of their BC TELECOM common shares and BC TELECOM options, as the case may be, shall be good and sufficiently given by including information with respect thereto in the Circular to be sent to the BC TELECOM Shareholders in accordance with paragraph 3 of this Order.

APPLICATION BY BC TELECOM FOR FINAL ORDER

14. Upon approval of the BC TELECOM Special Resolution, BC TELECOM may apply to this Court for approval of the Arrangement, which application shall be heard at the Courthouse at 800 Smithe Street, Vancouver, British Columbia on the 22nd day of January, 1999 at 9:45 a.m. (Pacific Standard time), or so soon thereafter as counsel may be heard.

15. The mailing of the materials referred to in paragraph 3 above in accordance with the provisions of this Order shall constitute good and sufficient service of the within proceedings, this Order, and the application for

the final order approving the Arrangement upon all persons who are entitled to receive such notice pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings and service of the Petition and the Affidavit of Ian D. Mansfield, filed herein, is dispensed with except as to service of the Petition and the Affidavit of Ian D. Mansfield on the Director.

16. Persons desiring to appear at the hearing on January 22, 1999, are required to file with the Court and serve on BC TELECOM, on or before January 19, 1999, a notice of their intention to appear, including their addresses for service in Vancouver, British Columbia (or alternatively a telecopier number for service by telecopy), together with any evidence or material which is to be presented to the Court. Service on BC TELECOM is to be effected by delivery to the solicitors for BC TELECOM at:

Farris, Vaughan, Wills & Murphy
2600 - 700 West Georgia Street
Vancouver, B.C. V7Y 1B3
Attention: J. Kenneth McEwan

17. In the event that the application for final approval of the Arrangement on January 22, 1999 is adjourned, then, subject to further order of this Court, only those persons having previously served a notice of intention to appear in accordance with paragraph 16 hereof shall have to be given notice of the adjournment date.

VARIATION OF ORDER

18. BC TELECOM (and such other persons as this Court may consider to be affected by the Arrangement) may at any time seek leave to vary this Order upon such terms and the giving of such notice as this Court may direct.

BY THE COURT

(signed) I. McLeod
District Registrar

APPROVED AS TO FORM:

(signed) J. Kenneth McEwan
Solicitor for the Petitioner

ACTION NO: A983181
VANCOUVER REGISTRY

IN THE SUPREME COURT OF
BRITISH COLUMBIA
JUDICIAL DISTRICT OF VANCOUVER

IN THE MATTER OF section 192 of the
CANADA BUSINESS CORPORATIONS ACT,
R.S.C. 1985, c. C-44, AS AMENDED

AND IN THE MATTER OF AN
ARRANGEMENT PROPOSED BY
BC TELECOM INC., TELUS
CORPORATION, BCT.TELUS
COMMUNICATIONS INC. and 3481646
CANADA INC. INVOLVING
BC TELECOM INC. AND ITS HOLDERS OF
COMMON SHARES AND OPTIONS TO
ACQUIRE COMMON SHARES AND TELUS
CORPORATION AND ITS HOLDERS OF
COMMON SHARES AND OPTIONS TO
ACQUIRE COMMON SHARES, BCT.TELUS
COMMUNICATIONS INC. AND 3481646
CANADA INC.

ORDER

FARRIS, VAUGHAN, WILLS & MURPHY
Barristers and Solicitors
2600 - 700 West Georgia Street
Vancouver, British Columbia
V7Y 1B3
Telephone: (604) 684-9151
Attention: J. Kenneth McEwan

Action No. 9801-16664

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF Section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended;

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY TELUS CORPORATION, BC TELECOM INC., BCT.TELUS COMMUNICATIONS INC. and 3481646 CANADA INC. INVOLVING TELUS CORPORATION AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES AND BC TELECOM INC. AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC.

BEFORE THE HONOURABLE CHIEF JUSTICE W.K. MOORE IN CHAMBERS

AT THE COURT HOUSE, IN THE CITY OF CALGARY, ALBERTA, ON MONDAY, THE 7th DAY OF December, 1998

ORDER

UPON THE APPLICATION of TELUS Corporation ("TELUS") pursuant to section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended, (the "ABCA") for certain orders and directions in connection with a proposed arrangement under the provisions of the ABCA;

UPON BEING ADVISED that the Executive Director of the Alberta Securities Commission (the "Executive Director") has been given notice of this application by TELUS as required by section 186(8) of the ABCA and has advised that the Executive Director does not intend to appear in person or by counsel or make any representations;

AND UPON HEARING read the Affidavit of Frank J. Parrotta of TELUS, which sets forth a form of Joint Management Proxy Circular (the "Circular") at Exhibit "A",

AND UPON HEARING Counsel for TELUS:

IT IS HEREBY ORDERED AND DIRECTED THAT:

TELUS Meeting

1. TELUS shall call, hold and conduct a meeting (the "TELUS Meeting") of the holders of common shares of TELUS (the "TELUS Common Shareholders") and holders of options to purchase TELUS common shares (the "TELUS Optionholders") to be held at the City of Edmonton in the Province of Alberta at the Winspear Centre, #4 Sir Winston Churchill Square, 9720 - 102nd Avenue, Edmonton, Alberta, at 10:30 a.m. (Mountain Standard time) on the 19th day of January, 1999, for the purpose of (i) considering and, if deemed advisable, approving with or without variation, a special resolution substantially in the form of the TELUS Corporation special resolution set forth in Appendix A to the Circular (the "TELUS Special Resolution") approving a proposed arrangement (the "Arrangement") involving TELUS and the TELUS Common Shareholders and the TELUS Optionholders and BC TELECOM Inc. ("BC TELECOM") and the holders of common shares and options to purchase common shares of BC TELECOM and BCT.TELUS Communications Inc. and 3481646 Canada Inc. on the terms and conditions set forth in the Plan of Arrangement annexed as Schedule "A" to the amended and restated arrangement agreement made effective October 27, 1998, (the "Arrangement Agreement"); and (ii) transacting such other business as may properly be brought before the TELUS Meeting.

2. The TELUS Common Shareholders and TELUS Optionholders (collectively, the "TELUS Shareholders") shall vote on the TELUS Special Resolution together as a single class. The votes of TELUS Common Shareholders and TELUS Optionholders shall be recorded separately and the results shall be available to the Court on the application by TELUS to approve the Arrangement.

Notices

3. TELUS shall mail the Notice of the TELUS Meeting, the Notice to TELUS Shareholders of Petition to the Court of Queen's Bench of Alberta, appropriate forms of Proxy, the Circular (in substantially the form set forth at Exhibit "A" to the Affidavit of Frank J. Parrotta with such amendments as are not inconsistent with the provisions of this Order) and this Order to the TELUS Shareholders, as shown on the register or registers of shareholders in the case of TELUS Common Shareholders, and as shown in the records of TELUS in the case of TELUS Optionholders, at the close of business on December 9, 1998 (the "TELUS Record Date") by mailing same by prepaid Canada Post Corporation's XPRESSPOST to such TELUS Shareholders at the latest address for such TELUS Shareholders as shown in the registers or records of TELUS or its registrar and transfer agent, and to the Executive Director at the address of an office of the Alberta Securities Commission, at least 21 days prior to the date of the TELUS Meeting, excluding the date of mailing and excluding the date of the TELUS Meeting.

4. The accidental omission or delay in giving notice of the TELUS Meeting or the non-receipt by any person of such notice shall not invalidate any resolution passed or proceedings taken at the TELUS Meeting.

Conduct of TELUS Meeting

5. The TELUS Meeting shall be called, held and conducted in accordance with the Bylaws of TELUS and the ABCA, subject to the provisions of this Order and to such modifications as may be adopted at the TELUS Meeting.

6. Each TELUS Common Shareholder entitled to vote on the TELUS Special Resolution shall be entitled to one vote for each TELUS common share held and each TELUS Optionholder entitled to vote on the TELUS Special Resolution shall be entitled to one vote for each TELUS common share which a TELUS Optionholder would receive upon valid exercise of his or her options held.

7. A quorum at the TELUS Meeting shall be at least two persons present in person or represented by proxy and holding or representing not less than 1% in aggregate of the TELUS Common Shares entitled to vote on the TELUS Special Resolution at the TELUS Meeting, provided that if no quorum is present within 30 minutes of the appointed time of the TELUS Meeting, such meeting shall stand adjourned to a fixed time and place as specified by the Chairman of the TELUS Meeting.

8. The TELUS Meeting, once commenced, may be adjourned from time to time and no further notice of such adjournment or the holding of any adjourned meeting or meetings need be given thereafter.

9. The majority required to pass the TELUS Special Resolution at the TELUS Meeting shall be at least 66⅔% of the votes cast by the TELUS Common Shareholders and the TELUS Optionholders (voting together) who voted, in person or by proxy, in respect of the TELUS Special Resolution.

10. The only persons entitled to vote at the TELUS Meeting, either in person or by proxy, shall be the registered TELUS Common Shareholders and TELUS Optionholders, as at the close of business on the TELUS Record Date, subject to the provisions of the ABCA with respect to persons who become registered holders of TELUS common shares after that date.

11. The only persons entitled to attend and speak at the TELUS Meeting shall be the TELUS Shareholders or their authorized representatives, together with TELUS directors and officers and its auditors, advisors and counsel and the Executive Director.

TELUS Dissent Rights

12. A TELUS Shareholder shall have the right to dissent from the TELUS Special Resolution in accordance with the provisions of section 184 of the ABCA, as if that section applied to the proposed Arrangement, as modified by this Order, including:

a. for any TELUS Shareholder to be entitled to dissent, the written objection of that TELUS Shareholder to the TELUS Special Resolution must be received on or before 5:00 p.m. (Mountain Standard Time) on January 18, 1999 by the Corporate Secretary of TELUS in care of Montreal Trust Company of Canada at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, or be delivered to the Chairman of the TELUS Meeting before the commencement of the TELUS Meeting;

b. an application may not be made to the Court under section 184(6) until the later of the date the certificate of arrangement issued to BC TELECOM in respect of the Plan of Arrangement pursuant to the CBCA becomes effective;

c. dissent proceedings shall be discontinued, in addition to the grounds specified in section 184(16), where:

   i) the Arrangement Agreement is terminated; or

   ii) the application by TELUS to this Court for approval of the Arrangement is refused and all appeal rights in respect of such refusal have been exhausted without success.

d. all notices and documents required or permitted to be sent by a TELUS Shareholder or TELUS under section 184 may be sent in the manner provided for the sending of notices and documents to the TELUS Shareholder or TELUS, as the case may be, under the ABCA; and

e. a dissenting shareholder is entitled to appear at the hearing of the application by TELUS to the Court for approval of the Arrangement, provided that such dissenting shareholder has filed and served a notice of intention to appear in accordance with paragraph 16 of this Order.

13. Notice to the TELUS Shareholders of their right to dissent with respect to the TELUS Special Resolution and to receive, subject to the provisions of this Order, the fair value of their TELUS common shares and TELUS options, as the case may be, shall be good and sufficiently given by including information with respect thereto in the Circular to be sent to the TELUS Shareholders in accordance with paragraph 3 of this Order.

Application by TELUS for Final Order

14. Upon approval of the TELUS Special Resolution, TELUS may apply to this Court for approval of the Arrangement, which application shall be heard at the Court House, 611 - 4th Street S.W., Calgary, Alberta on the 21st day of January, 1999 at 1:30 p.m. (Mountain Standard Time), or so soon thereafter as counsel may be heard.

15. The mailing of the materials referred to in paragraph 3 above in accordance with the provisions of this Order shall constitute good and sufficient service of the within proceedings, this Order, and the application for the final order approving the Arrangement upon all persons who are entitled to receive such notice pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings and service of the Petition and the Affidavit of Frank J. Parrotta, filed herein, is dispensed with except as to service of the Petition and the Affidavit of Frank J. Parrotta on the Executive Director.

16. Persons desiring to appear at the hearing on January 21, 1999, are required to file with the Court and serve on TELUS, on or before January 11, 1999, a notice of their intention to appear, including their addresses for service in Calgary, Alberta (or alternatively a telecopier number for service by telecopy), together with any

evidence or material which is to be presented to the Court. Service on TELUS is to be effected by delivery to the solicitors for TELUS at:

Bennett Jones
4500 Bankers Hall
855 - 2 Street, S.W.
Calgary, Alberta T2P 4K7
Attention: A.L. Friend, Q.C.

17. In the event that the application for final approval of the Arrangement on January 21, 1999 is adjourned, then, subject to further order of this Court, only those persons having previously served a notice of intention to appear in accordance with paragraph 16 hereof shall have to be given notice of the adjournment date.

18. In addition to service of this Order in accordance with paragraph 3 above, service of this Order shall be made upon all such persons who appeared on this application either by counsel or in person and upon the Executive Director.

Variation of Order

19. TELUS (and such other persons as this Court may consider to be affected by the Arrangement) may at any time seek leave to vary this Order upon such terms and the giving of such notice as this Court may direct.

(signed) W.K. Moore, C.J.
C.J.C.Q.B.A.

ENTERED at the City of Calgary,
in the Province of Alberta, this
7th day of December, 1998.

(signed) Clerk of the Court of Queen's Bench of Alberta
Clerk of the Court

ACTION NO: 9801-16664

IN THE COURT OF QUEEN'S BENCH
OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended;

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY TELUS CORPORATION, BC TELECOM INC., BCT.TELUS COMMUNICATIONS INC. and 3481646 CANADA INC. INVOLVING TELUS CORPORATION AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES AND BC TELECOM INC. AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC.

ORDER

BENNETT JONES
Barristers and Solicitors
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PROCEDURE TO EXERCISE DISSENT RIGHT UNDER THE CBCA

APPENDIX D — PROCEDURE TO EXERCISE DISSENT RIGHT UNDER THE CBCA

Pursuant to the Interim Order, BC TELECOM Shareholders have the right to dissent to the Arrangement. Such right of dissent is described in the Joint Management Information Circular. See "BC TELECOM Common Shareholder Rights of Dissent" for full details of the right to dissent and the procedure for compliance with the right of dissent. The full text of Section 190 of the *Canada Business Corporations Act* is set forth below. Note that certain provisions of Section 190 have been modified by the Interim Order attached to the Joint Management Information Circular as Appendix C.

SECTION 190 OF THE *CANADA BUSINESS CORPORATIONS ACT*

190. (1) **Right to dissent.** — Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

(a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;

(c) amalgamate otherwise than under section 184;

(d) be continued under section 188; or

(e) sell, lease or exchange all or substantially all of its property under subsection 189(3).

(2) **Further right.** — A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) **Payment for shares.** — In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) **No partial dissent.** — A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) **Objection.** — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.

(6) **Notice of resolution.** — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.

(7) **Demand for payment.** — A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing

(a) his name and address;

(b) the number and class of shares in respect of which he dissents; and

(c) a demand for payment of the fair value of such shares.

(8) **Share certificate.** — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.

(9) **Forfeiture.** — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) **Endorsing certificate.** — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) **Suspension of rights.** — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where

(a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),

(b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or

(c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),

in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).

(12) **Offer to pay.** — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) **Same terms.** — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) **Payment.** — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) **Corporation may apply to court.** — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) **Shareholder application to court.** — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) **Venue.** — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) **No security for costs.** — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) **Parties.** — On an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.

(20) **Powers of court.** — On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) **Appraisers.** — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) **Final order.** — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the Court.

(23) **Interest.** — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) **Notice that subsection (26) applies.** — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) **Effect where subsection (26) applies.** — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) **Limitation.** — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

PROCEDURE TO EXERCISE DISSENT RIGHT UNDER THE ABCA

APPENDIX E — PROCEDURE TO EXERCISE DISSENT RIGHT UNDER THE ABCA

Pursuant to the Interim Order, TELUS Shareholders have the right to dissent to the Arrangement. Such right of dissent is described in the Joint Management Information Circular. See "TELUS Shareholder Rights of Dissent" for full details of the right to dissent and the procedure for compliance with the right of dissent. The full text of Section 184 of the *Business Corporations Act* (Alberta) is set forth below. Note that certain provisions of Section 184 have been modified by the Interim Order attached to the Joint Management Information Circular as Appendix C.

SECTION 184 OF THE *BUSINESS CORPORATIONS ACT* (ALBERTA)

184(1) Subject to sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation resolves to

(a) amend its articles under section 167 or 168 to add, change or remove any provisions restricting or constraining the issue or transfer of shares of that class,

(b) amend its articles under section 167 to add, change or remove any restrictions on the business or businesses that the corporation may carry on,

(c) amalgamate with another corporation, otherwise than under section 178 or 180.1,

(d) be continued under the laws of another jurisdiction under section 182, or

(e) sell, lease or exchange all or substantially all its property under section 183.

(2) A holder of shares or any class or series of shares entitled to vote under section 170, other than section 170(1)(a), may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) In addition to any other right he may have, but subject to subsection (20), a shareholder entitled to dissent under this section and who complies with this section is entitled to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the last business day before the day on which the resolution from which he dissents was adopted.

(4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) A dissenting shareholder shall send to the corporation a written objection to a resolution referred to in subsection (1) or (2)

(a) at or before any meeting of shareholders at which the resolution is to be voted on, or

(b) if the corporation did not send notice to the shareholder of the purpose of the meeting or of his right to dissent, within a reasonable time after he learns that the resolution was adopted and of his right to dissent.

(6) An application may be made to the Court by originating notice after the adoption of a resolution referred to in subsection (1) or (2),

(a) by the corporation, or

(b) by a shareholder if he has sent an objection to the corporation under subsection (5),

to fix the fair value in accordance with subsection (3) of the shares of a shareholder who dissents under this section.

(7) If an application is made under subsection (6), the corporation shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors to be the fair value of the shares.

(8) Unless the Court otherwise orders, an offer referred to in subsection (7) shall be sent to each dissenting shareholder

(a) at least 10 days before the date on which the application is returnable, if the corporation is the applicant, or

(b) within 10 days after the corporation is served with a copy of the originating notice, if a shareholder is the applicant.

(9) Every offer made under subsection (7) shall

(a) be made on the same terms, and

(b) contain or be accompanied by a statement showing how the fair value was determined.

(10) A dissenting shareholder may make an agreement with the corporation for the purchase of his shares by the corporation, in the amount of the corporation's offer under subsection (7) or otherwise, at any time before the Court pronounces an order fixing the fair value of the shares.

(11) A dissenting shareholder

(a) is not required to give security for costs in respect of an application under subsection (6), and

(b) except in special circumstances shall not be required to pay the costs of the application or appraisal.

(12) In connection with an application under subsection (6), the Court may give directions for

(a) joining as parties all dissenting shareholders whose shares have not been purchased by the corporation and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representation,

(b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,

(c) the payment to the shareholder of all or part of the sum offered by the corporation for the shares,

(d) the deposit of the share certificates with the Court or with the corporation or its transfer agent,

(e) the appointment and payment of independent appraisers, and the procedures to be followed by them,

(f) the service of documents, and

(g) the burden of proof on the parties.

(13) On an application under subsection (6), the Court shall make an order

(a) fixing the fair value of the shares in accordance with subsection (3) of all dissenting shareholders who are parties to the application,

(b) giving judgment in that amount against the corporation and in favour of each of those dissenting shareholder, and

(c) fixing the time within which the corporation must pay that amount to a shareholder.

(14) On

(a) the action approved by the resolution from which the shareholder dissents becoming effective,

(b) the making of an agreement under subsection (10) between the corporation and the dissenting shareholder as to the payment to be made by the corporation for his shares, whether by the acceptance of the corporation's offer under subsection (7) or otherwise, or

(c) the pronouncement of an order under subsection (13),

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares in the amount agreed to between the corporation and the shareholder or in the amount of the judgment, as the case may be.

(15) Subsection (14)(a) does not apply to a shareholder referred to in subsection (5)(b).

(16) Until one of the events mentioned in subsection (14) occurs,

(a) the shareholder may withdraw his dissent, or

(b) the corporation may rescind the resolution,

and in either event proceedings under this section shall be discontinued.

(17) The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the shareholder ceases to have any rights as a shareholder by reason of subsection (14) until the date of payment.

(18) If subsection (20) applies, the corporation shall, within 10 days after

(a) the pronouncement of an order under subsection (13), or

(b) the making of an agreement between the shareholder and the corporation as to the payment to be made for his shares,

notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(19) Notwithstanding that a judgment has been given in favour of a dissenting shareholder under subsection (13)(b), if subsection (20) applies, the dissenting shareholder, by written notice delivered to the corporation within 30 days after receiving the notice under subsection (18), may withdraw his notice of objection, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder, failing which he retains a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of the creditors of the corporation but in priority to its shareholders.

(20) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due, or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

FAIRNESS OPINIONS

APPENDIX F — FAIRNESS OPINIONS

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TD SECURITIES

TD Securities Inc.

55 King Street W. & Bay Street, 8th Floor
Toronto Dominion Bank Tower
P.O. Box 1, Toronto Dominion Centre
Toronto, Ontario M5K 1A2

December 8, 1998

The Board of Directors
BC TELECOM Inc.
3777 Kingsway
Burnaby, B.C. V5H 3Z7

To the Board of Directors:

TD Securities Inc. ("TD Securities") understands that BC TELECOM Inc. (the "Company") and TELUS Corporation ("TELUS") have entered into an agreement dated October 19, 1998, as subsequently amended on October 27, 1998 (the "Arrangement Agreement"), to complete a business combination (the "Transaction") by way of plan of arrangement. Pursuant to the Arrangement Agreement, the Company and TELUS will merge to form a new public company, BCT.TELUS Communications Inc. ("BCT.TELUS"), and, each holder of BC TELECOM common shares will exchange 75% of its common shares of the Company (the "BC TELECOM Common Shares") for voting common shares in the capital of BCT.TELUS (the "BCT.TELUS Common Shares") on a one-for-one basis and 25% of its BC TELECOM Common Shares for non-voting shares in the capital of BCT.TELUS (the "BCT.TELUS Non-Voting Shares") on a one-for-one basis. Each holder of common shares of TELUS will exchange 75% of its common shares of TELUS (the "TELUS Common Shares") for 0.7773 BCT.TELUS Common Share for each TELUS Common Share held and 25% of its TELUS Common Shares for 0.7773 BCT.TELUS Non-Voting Share for each TELUS Common Share held. The terms of the Transaction are to be described in a joint management proxy circular (the "Circular") to be dated on or about December 8, 1998, which will be mailed to shareholders of the Company and TELUS in connection with the Transaction.

Engagement

The Company retained TD Securities pursuant to an agreement dated June 15, 1998 (the "Engagement Agreement") to provide financial advisory services in connection with the Transaction. These services include, inter alia, the preparation and delivery to the board of directors (the "Board") of the Company of TD Securities' opinion as to the fairness of the Transaction from a financial point of view to the holders of BC TELECOM Common Shares (the "Fairness Opinion"). The Fairness Opinion is being provided to the Company under the terms of the Engagement Agreement. TD Securities was not engaged to make (and has not made) an independent formal valuation or appraisal of the Company or TELUS or of their respective assets or liabilities, and we have not been furnished with any such valuation or appraisal. The Fairness Opinion should not be construed as a formal valuation or appraisal. We were similarly not engaged to review any legal or accounting aspects of the Transaction. In preparing this Fairness Opinion, TD Securities has not considered the tax implications of the Transaction to individual shareholders of the Company and has assumed that the Transaction has no adverse tax implications for the shareholders of the Company.

The Engagement Agreement provides for TD Securities to receive from the Company, for the various financial advisory services to be provided, monthly work fees and a success fee upon closing of the Transaction, as well as reimbursement of all reasonable out-of-pocket expenses. The Company has agreed to indemnify TD Securities from and against certain liabilities arising directly or indirectly out of the performance of professional services rendered to the Company by TD Securities and its personnel under the Engagement Agreement or otherwise.

This Fairness Opinion is intended solely for the use of the Board, and may not be published, reproduced, disseminated, quoted from or referred to without our prior written permission (such permission not to be unreasonably withheld) save as hereinafter provided. TD Securities understands and agrees that this Fairness Opinion may be reproduced in full and/or summarized, and the conclusions and advice pertaining thereto may be included in the Circular, provided that the contents of the Circular have been approved in writing by TD Securities (such approval not to be unreasonably withheld) and comply with applicable legislation (including applicable published policy statements of Canadian securities regulatory authorities).

Credentials of TD Securities

TD Securities is a Canadian investment banking firm with operations in a broad range of investment banking activities, including corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading, investment management and investment research. The opinion expressed herein is the opinion of TD Securities and its form and content have been approved by a committee of directors of TD Securities, each of whom is experienced in merger, acquisition, divestiture, valuation and fairness opinion matters.

Relationship with Interested Parties

Neither TD Securities, nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario) (the "Act")) of the Company, TELUS or any of their respective associates or affiliates. TD Securities was engaged by the Company from April 22, 1998 to May 22, 1998, to provide financial advisory services related to the review of a potential acquisition that did not proceed. Other than the services provided under the Engagement Agreement and the previously described assignment, TD Securities has not been engaged to provide any financial advisory services for the Company, TELUS or any of their respective associates or affiliates, within the past two years. TD Securities is a regular participant in the medium term note programs of one of the Company's subsidiaries and of TELUS. TD Securities is a wholly-owned subsidiary of The Toronto-Dominion Bank ("TD Bank"). TD Bank provides banking services to both the Company and TELUS in the normal course of business.

TD Securities acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, TELUS or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, TD Securities conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, TELUS or the Transaction.

Other than the Engagement Agreement, there are no understandings, agreements or commitments between TD Securities and the Company, TELUS or any of their respective associates or affiliates with respect to any future business dealings. TD Securities may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Company, TELUS or any of their respective associates or affiliates.

Scope of Review

In connection with this Fairness Opinion, TD Securities has reviewed and relied upon or carried out, among other things, the following:

1. the Arrangement Agreement including the plan of arrangement;
2. heads of agreement regarding the terms and conditions relating to the licensing of GTE Corporation intellectual property by the Company;
3. draft of the Circular in substantially final form;
4. audited financial statements of the Company and TELUS for each of the four years ended December 31, 1997;
5. unaudited interim financial statements of the Company and TELUS for the eight-month period ended August 31, 1998;
6. annual reports of the Company and TELUS for each of the four years ended December 31, 1997;
7. quarterly reports of the Company and TELUS for the first three quarters of fiscal 1997 and first two quarters of fiscal 1998;
8. notice of annual meeting of shareholders and information circulars of the Company and TELUS for each of the two years ended December 31, 1997;
9. annual information forms of the Company and TELUS for each of the two years ended December 31, 1997;
10. historical segmented financial information for the Company and TELUS by business unit for the four years ended December 31, 1997;
11. internal management budgets of the Company and TELUS for the year ending December 31, 1998;
12. unaudited projected financial statements for the Company and TELUS prepared by management of the Company and TELUS respectively for the years ending December 31, 1998 through December 31, 2003;
13. discussions with senior management of the Company and TELUS with respect to the information referred to above and other issues deemed relevant at the time;
14. representations contained in a certificate dated the date hereof from senior officers of the Company and TELUS as to the completeness and accuracy of the information upon which the Fairness Opinion is based, the absence of changes to such information, the absence of undisclosed information which would reasonably be expected to affect materially the Fairness Opinion, and the reasonableness of projections or forecasts;
15. discussions with the Company's and TELUS' auditors and legal counsel;
16. public information relating to the business, operations, financial performance and stock trading history of the Company, TELUS and other selected public companies considered by us to be relevant;
17. public information with respect to certain other transactions of a comparable nature considered by us to be relevant; and

18. such other corporate, industry, and financial market information, investigations and analyses as TD Securities considered necessary or appropriate in the circumstances.

TD Securities has not, to the best of its knowledge, been denied access by the Company or TELUS to any information requested by TD Securities.

Assumptions and Limitations

With the Company's acknowledgment and agreement as provided for in the Engagement Agreement, TD Securities has relied upon the accuracy and completeness of all data and other information obtained by us from public sources and that was provided to TD Securities by the Company and TELUS and their respective personnel, advisors, or otherwise (including the certificates identified below). The Fairness Opinion is conditional upon such accuracy and completeness. Subject to the exercise of professional judgment and except as expressly described herein, TD Securities has not attempted to verify independently the completeness or accuracy of any of the data and other information.

With respect to the financial forecasts or projections provided to TD Securities and used in our analyses, we note that projecting future results of any company is inherently subject to uncertainty. We have assumed, however, that such forecasts and projections were prepared using the assumptions identified therein which, in the reasonable opinion of the Company or of TELUS, as the case may be, are (or were at the time of preparation and continue to be) reasonable in the circumstances. In rendering this Fairness Opinion, we express no opinion as to the reasonableness of such forecasts or projections provided to us and used in our analyses. Senior officers of the Company have represented to us in a certificate delivered as of the date hereof, among other things, that (i) the Company has no information or knowledge of any facts public or otherwise not specifically provided to TD Securities relating to the Company, its subsidiaries or TELUS which would reasonably be expected to affect materially the Fairness Opinion; (ii) the information and data provided to TD Securities by or on behalf of the Company in respect of the Company and its subsidiaries in connection with the Transaction is or, in the case of historical information and data, was, at the date of preparation, true and accurate in all material respects and no additional material, data or information would be required to make the information and data provided to TD Securities not misleading in the light of circumstances in which it was prepared; (iii) there have been no changes in any material facts or new material facts since the respective dates thereof which have not been disclosed to TD Securities or updated by more current information and data not provided to TD Securities by the Company; and (iv) any portions of the information and data provided to TD Securities by or on behalf of the Company which constitute forecasts, projections or estimates were prepared using the assumptions identified therein, which, in the reasonable opinion of the Company are (or were at the time of preparation and continue to be) reasonable in the circumstances. Senior officers of TELUS have made the same representations to TD Securities in a separate certificate delivered as of the date hereof.

In preparing the Fairness Opinion, TD Securities has made several assumptions, including that all conditions precedent to the completion of the Arrangement can be satisfied in due course, that all consents, permissions, exemptions or orders of relevant regulatory authorities will be obtained, without adverse condition or qualification, the procedures being followed to implement the Transaction are valid and effective, the Circular will be distributed to the shareholders of the Company and of TELUS in accordance with the applicable laws, and the disclosure in the Circular is accurate in all material respects and complies, in all material respects, with the requirements of all applicable laws. In our analysis in connection with the preparation of this Fairness Opinion, TD Securities made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Company and of TELUS.

The Fairness Opinion is given as of the date hereof and is based on the securities markets, economic and general business and financial conditions prevailing today and the conditions and prospects, financial and otherwise, of the Company, TELUS and their respective affiliates as they were reflected in the information provided to TD Securities. Any changes therein may affect TD Securities' opinion and, although we reserve the right to change or withdraw our opinion in such event, we disclaim any undertaking or obligation to advise any person of any such change that may come to our attention, or update our opinion after the date hereof.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. TD Securities believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create an incomplete view of the process underlying the Fairness Opinion. The Fairness Opinion is not to be construed as a recommendation to any holder of BC TELECOM Common Shares as to whether to vote in favour of the Transaction. TD Securities is not opining as to the market value or the prices at which any of the securities of the Company or of TELUS may trade at any time.

TD Securities' conclusion as to the fairness of the Transaction is based on our review of the Transaction taken as a whole, rather than on any particular element of the Transaction, and this Fairness Opinion should be read in its entirety.

Approach to Fairness

For the purpose of assessing the fairness from a financial point of view of the Transaction to the holders of BC TELECOM Common Shares, TD Securities considered (i) the expected value of consideration to be received by holders of BC TELECOM Common Shares (being 0.75 BCT.TELUS Common Shares and 0.25 BCT.TELUS Non-Voting Shares for each Common Share) compared to the value of the BC TELECOM Common Shares prior to the date of public confirmation of discussions between the Company and TELUS (being October 14, 1998), (ii) the recent market trading value and liquidity of the BC TELECOM Common Shares and the TELUS Common Shares, (iii) the relative contribution of earnings, cash flow and assets by the Company and TELUS to BCT.TELUS compared to the relative ownership of BCT.TELUS to be received by the holders of BC TELECOM Common Shares and the holders of TELUS Common Shares. Given that the Transaction represents a merger of equals and holders of BC TELECOM Common Shares will become holders of BCT.TELUS Common Shares and BCT.TELUS Non-Voting Shares with the ability to participate in any future en bloc sale involving BCT.TELUS, TD Securities did not believe it would be appropriate to, and hence did not, consider an en bloc sale analysis of the Company.

Conclusion

Based upon and subject to the foregoing, TD Securities is of the opinion that, as of the date hereof, the Transaction is fair from a financial point of view to the holders of BC TELECOM Common Shares.

Yours very truly,

TD Securities Inc.

TD SECURITIES INC.

JPMorgan

P. Morgan & Co.
corporated

Wall Street
ew York NY
0260-0060

December 8, 1998

The Board of Directors
BC TELECOM Inc.
3777 Kingsway
Burnaby, BC V5H 3Z7
Canada

Attention: Brian A. Canfield
Chairman

Ladies and Gentlemen:

You have requested our opinion as to the fairness, from a financial point of view, to BC TELECOM Inc. ("BC TELECOM") of the consideration to be received by BC TELECOM shareholders in connection with the proposed Plan of Arrangement (the "Arrangement"), as attached to the Amended and Restated Arrangement Agreement dated as of October 27, 1998, among BC TELECOM, TELUS Corporation ("TELUS") and their respective shareholders contemplated by the Amended and Restated Arrangement Agreement.

In arriving at our opinion, we have reviewed (i) the Arrangement; (ii) certain publicly available information concerning the business of TELUS and of certain other companies engaged in businesses comparable to those of TELUS, and the reported market prices for certain other companies' securities deemed comparable; (iii) publicly available terms of certain transactions involving companies comparable to TELUS and the consideration received for such companies; (iv) current and historical market prices of the common stock of BC TELECOM and TELUS; (v) the audited financial statements of BC TELECOM and TELUS for the fiscal year ended December 31, 1997, and the unaudited financial statements of BC TELECOM and TELUS for the period ended August 31, 1998; (vi) certain internal financial analyses and forecasts prepared by BC TELECOM and TELUS and their respective managements; (vii) the Heads of Agreement: Brand, Technology and Co-Marketing, dated as of October 19, 1998, between BC TELECOM and GTE Corporation; (viii) the Voting Agreement, dated as of October 27, 1998, between BC TELECOM and GTE Corporation; (ix) the Long-Term Relationship Agreement, dated as of October 27, 1998, among BCT.Telus Communications Inc., GTE Corporation and the Anglo-Canadian Telephone Co.; and (x) the terms of other business combinations that we deemed relevant.

In addition, we have held discussions with certain members of the management of BC TELECOM and TELUS with respect to certain aspects of the Arrangement, the past and current business operations of BC TELECOM and TELUS, the financial condition and future prospects and operations of BC TELECOM and TELUS, the effects of the Arrangement on the financial condition and future prospects of BC TELECOM and TELUS, and certain other matters we believed necessary or appropriate to our inquiry.

In giving our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to us by BC TELECOM and TELUS or otherwise reviewed by us, and we have not assumed any responsibility or liability therefor. We have not conducted any valuation or appraisal of any assets or liabilities, nor have any such valuations or appraisals been provided to us. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations

and financial condition of BC TELECOM and TELUS to which such analyses or forecasts relate. We have also assumed that the Arrangement will have the tax consequences described in discussions with, and materials furnished to us by, representatives of BC TELECOM, and that the other transactions contemplated by the Arrangement will be consummated as described in the Arrangement. We have relied as to all legal matters relevant to rendering our opinion upon the advice of counsel.

Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion. We are expressing no opinion herein as to the price at which BC TELECOM's stock will trade at any future time.

We have acted as financial advisor to BC TELECOM with respect to the proposed Arrangement and will receive a fee from BC TELECOM for our services. We will also receive an additional fee if the proposed Arrangement is consummated. Please be advised that we have no other financial advisory or other relationships with BC TELECOM or TELUS. In the ordinary course of their businesses, our affiliates may actively trade the debt and equity securities of BC TELECOM or TELUS for their own account or for the accounts of customers and, accordingly, they may at any time hold long or short positions in such securities.

On the basis of and subject to the foregoing, it is our opinion as of the date hereof that the consideration to be received by BC TELECOM shareholders in the proposed Arrangement is fair, from a financial point of view, to BC TELECOM and its shareholders.

This letter is provided to the Board of Directors of BC TELECOM in connection with and for the purposes of its evaluation of the Arrangement. This opinion does not constitute a recommendation to any shareholder of BC TELECOM as to how such shareholder should vote with respect to the Arrangement. This opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written consent in each instance. This opinion may be reproduced in full in any proxy or information statement mailed to shareholders of BC TELECOM but may not otherwise be disclosed publicly in any manner without our prior written approval and must be treated as confidential.

Very truly yours,

J.P. MORGAN SECURITIES INC.

By: 

Name: Dag Skattum
Title: Managing Director

CIBC Wood Gundy

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October 27, 1998

The Independent Committee of the Board of Directors
BC Telecom Inc.
21 - 3777 Kingsway St.
Burnaby, BC V5H 3Z7

To the Independent Committee:

We understand that BC Telecom Inc. ("BCT") and TELUS Corporation ("TELUS") propose to participate in a statutory plan of arrangement (the "Arrangement") whereby all of the outstanding shares of both will be acquired by a newly incorporated British Columbia company, BCT.TELUS Communications Inc. ("MergeCo"). The terms of the Arrangement are set out in an Amended and Restated Arrangement Agreement dated October 27, 1998 among BCT, TELUS and MergeCo (the "Arrangement Agreement").

As a result of the Arrangement (i) each registered holder (a "BCT Shareholder") of common shares of BCT ("BCT Shares") will receive, in exchange for 75% of the BCT Shares held by such holder prior to the Arrangement, one common share of MergeCo (each, a "MergeCo Common Share") for each of those BCT Shares, and in exchange for 25% of the BCT Shares held by such holder prior to the Arrangement, one non-voting share of MergeCo (each, a "MergeCo Non-Voting Share") for each of those BCT Shares, and (ii) each registered holder (a "TELUS Shareholder") of common shares of TELUS ("TELUS Shares") will receive, in exchange for 75% of the TELUS Shares held by such holder prior to the Arrangement, 0.7773 of a MergeCo Common Share for each of those TELUS Shares, and in exchange for 25% of the TELUS Shares held by such holder prior to the Arrangement, 0.7773 of a MergeCo Non-Voting Share for each of those TELUS Shares (the exchange ratios being referred to herein as the "Share Exchange Ratios"). The MergeCo Common Shares and the MergeCo Non-Voting Shares are collectively referred to herein as the "MergeCo Shares".

Upon completion of the Arrangement, BCT Shareholders taken as a whole are anticipated to hold an aggregate of approximately 52.5% of the MergeCo Shares outstanding (such anticipated ownership of the BCT Shareholders taken as a whole being referred to herein as the "Pro Forma BCT Ownership Percentage") and TELUS Shareholders taken as a whole are anticipated to hold an aggregate of approximately 47.5% of the MergeCo Shares outstanding.

We also understand that GTE Corporation ("GTE"), through its subsidiary Anglo-Canadian Telephone Company ("Anglo"), holds approximately 51% of the BCT Shares outstanding and that they have agreed to vote in favour of the Arrangement.

In connection with the proposed Arrangement, BCT has entered into a Brand, Technology and Co-Marketing Heads of Agreement (the "Technology Heads of Agreement") with GTE dated October 19, 1998 whereby, assuming completion of the Arrangement, GTE will provide MergeCo (which will succeed to BCT's rights and obligations under the Technology Heads of Agreement if the Arrangement occurs) with intellectual property and information technology services, products and licenses, in exchange for certain payments, subject to certain rights and obligations of the parties to the agreement. Under the Technology Heads of Agreement, BCT has the right, subject to certain limitations, to cause the agreement to become effective whether or not the Arrangement is implemented. For purposes of the Fairness Opinion (as defined below), we have assumed that the Technology Heads of Agreement will come into effect only if the Arrangement is completed.

The board of directors of BCT (the "Board") has established a committee (the "Independent Committee") comprised of certain members of the Board who are independent of BCT management and GTE. We understand that the Independent Committee's mandate includes evaluating the Arrangement and the Technology Heads of Agreement and reporting thereon to the Board. The Independent Committee, on behalf of BCT, has retained CIBC Wood Gundy Securities Inc. ("Wood Gundy") to prepare and deliver to the Independent Committee its opinion (the "Fairness Opinion") as to (i) the fairness of the Technology Heads of Agreement from a financial point of view to BCT Shareholders other than GTE and Anglo (the "Public Shareholders") and (ii) the fairness of the Share Exchange Ratios, and resulting Pro Forma BCT Ownership Percentage, from a financial point of view to BCT Shareholders, including the Public Shareholders.

We understand that the Technology Heads of Agreement will constitute a "related party transaction" within the meaning of Ontario Securities Commission Policy Statement 9.1 (the "Policy"). We understand that the valuation requirement in the Policy does not apply as the value of the asset or the principal amount of the liability subject to the related party transaction does not exceed 25% of the market capitalization of BCT or the expected market capitalization of MergeCo.

Wood Gundy has not been engaged to prepare, and has not prepared, a valuation of BCT, TELUS or MergeCo or any of their respective material assets and the Fairness Opinion should not be construed as such.

Relationship of Wood Gundy with Interested Parties

Wood Gundy is not an insider, associate or affiliate (as those terms are defined in the *Securities Act* (British Columbia)) of BCT, TELUS, GTE or Anglo. The only advisory work or financings completed by Wood Gundy involving any of these three parties within the past two years were three debt issuances for BCT having an aggregate principal amount of $60 million. There are no understandings or agreements between Wood Gundy and BCT, TELUS, GTE or MergeCo with respect to any future business dealings. Wood Gundy may in the future, in the ordinary course of business, perform financial advisory or investment banking services for any of these companies or their successors.

Wood Gundy's compensation for providing the Fairness Opinion does not depend on the conclusions reached in the Fairness Opinion, the successful completion of the Arrangement or the entering into of the Technology Heads of Agreement.

Wood Gundy acts as a trader and dealer, both as principal and agent, in all major North American financial markets and as such may have had and may in the future have positions in the securities of BCT, TELUS, GTE and MergeCo and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it receives compensation. As an investment dealer, Wood Gundy conducts research on securities and may, in the ordinary course of its business, be expected to provide research reports and investment advice to its clients on investment matters.

Credentials of Wood Gundy

Wood Gundy is one of Canada's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Fairness Opinion represents the opinion of Wood Gundy and the form and content hereof have been approved for release by a committee of its managing directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

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Scope of Review

In connection with the preparation of the Fairness Opinion, we have reviewed and relied upon, or carried out, among other things, the following:

(i) the Arrangement Agreement;

(ii) the Technology Heads of Agreement;

(iii) the audited financial statements and annual reports of BCT and TELUS for the three fiscal years ended December 31, 1997;

(iv) the annual information forms of BCT and TELUS for the three fiscal years ended December 31, 1997;

(v) management proxy circulars of BCT and TELUS relating to all meetings of BCT Shareholders and TELUS Shareholders during the period from January 1, 1995 to the date hereof;

(vi) the unaudited financial statements of each of BCT and TELUS for the six months ended June 30, 1998;

(vii) financial forecast for BCT for the fiscal year ending December 31, 1998, prepared by BCT management, on a consolidated basis and with certain segmented information;

(viii) internal projected financial results for BCT for the five fiscal years ending December 31, 2003, prepared by BCT management, on a consolidated basis and with certain segmented information;

(ix) financial forecast for TELUS for the fiscal year ending December 31, 1998, prepared by TELUS management, on a consolidated basis and with certain segmented information;

(x) internal projected financial results for TELUS for the five fiscal years ending December 31, 2003, prepared by TELUS management, on a consolidated basis and with certain segmented information;

(xi) certain additional confidential financial, operating and strategic information regarding BCT and TELUS, from management representatives at each such company;

(xii) discussions with senior management of BCT, TELUS and GTE;

(xiii) discussions with the financial advisers to BCT for purposes of the Arrangement and receipt of certain financial analyses regarding the proposed Arrangement and Technology Heads of Agreement prepared by BCT and such advisers;

(xiv) discussions with Arthur Andersen & Co., auditors of BCT;

(xv) discussions with Farris, Vaughan, Wills & Murphy, legal counsel to BCT and with Thorsteinssons, tax counsel to BCT;

(xvi) publicly available information relating to the business, operations, financial performance and/or stock trading history of BCT, TELUS, GTE and Bell Atlantic Corporation and other selected public companies we considered relevant;

(xvii) publicly available information relating to the telecommunications industry in Canada and the United States;

(xviii) data with respect to other transactions and agreements of a comparable nature to the Arrangement and the Technology Heads of Agreement, respectively, considered by us to be relevant;

(xix) representations contained in a certificate addressed to us dated the date hereof from senior officers of BCT;

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(xx) representations contained in a certificate addressed to us dated the date hereof from a senior officer of GTE; and

(xxi) such other financial, securities markets, corporate and industry information, investigations and analyses as we considered necessary or appropriate in the circumstances.

Wood Gundy has not, to the best of our knowledge, been denied access by BCT to any information requested by Wood Gundy.

We have performed such analyses, investigations and testing of assumptions as were considered by us to be appropriate in the circumstances for the purpose of rendering the Fairness Opinion.

Assumptions and Limitations

We have relied upon, and have assumed the completeness, accuracy and fair presentation of, all financial and other information, data, advice, opinions and representations obtained by us from public sources or provided to us by BCT, TELUS or GTE and their respective affiliates and advisers, or otherwise pursuant to our engagement. The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation. The Fairness Opinion is also conditional upon the definitive legal agreement entered into pursuant to the Technology Heads of Agreement having terms and conditions consistent with those in the Technology Heads of Agreement with no material modification of any material terms or conditions and constituting an enforceable agreement between the parties. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations.

Certain senior officers of BCT have represented to us, in a certificate delivered as of the date hereof, among other things, that (i) the information, data and other material (financial or otherwise) (the "Information") provided orally by, or in the presence of, an officer or employee of BCT or its advisers or in writing by BCT or its advisors to Wood Gundy, relating to BCT or any of its subsidiaries or the Arrangement or the Technology Heads of Agreement, for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to Wood Gundy, and is, complete, true and correct in all material respects, and did not and does not contain any untrue statement of a material fact in respect of BCT, its subsidiaries, the Technology Heads of Agreement or the Arrangement, and did not, and does not, omit to state a material fact necessary to make the Information not misleading in light of the circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to Wood Gundy, except as disclosed in writing to Wood Gundy, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of BCT or any of its subsidiaries and no material change has occurred in the Information or any part thereof which would have or which would reasonably be expected to have a material effect on either the Technology Heads of Agreement Opinion or the Arrangement Opinion (each as defined below).

A senior officer of GTE has represented to us, in a certificate delivered as of the date hereof, among other things, that (i) GTE and Anglo agreed to vote in favour of the Arrangement as a result of negotiations with TELUS, (ii) GTE had full knowledge of, and access to, information concerning BCT such that the underlying value of BCT was a material factor considered by GTE in agreeing to support the terms of the Arrangement, and in particular the Pro Forma BCT Ownership Percentage, (iii) although the strategic implications to BCT of the Technology Heads of Agreement were relevant to GTE's determination to support the Arrangement, neither the amount of the payments to be made to GTE thereunder nor any non-financial factors peculiar to GTE were material factors considered by GTE in agreeing to support the Pro Forma BCT Ownership Percentage under the

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Arrangement, and (iv) there are no material collateral arrangements between GTE or its affiliates on one side and TELUS or its affiliates on the other side.

The Fairness Opinion is rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of BCT and TELUS as they were reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management representatives at BCT and TELUS. In our analyses and in connection with the preparation of the Fairness Opinion, we have made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved with the Arrangement or the Technology Heads of Agreement. The Fairness Opinion is not intended to be and does not constitute a recommendation to any BCT Shareholder as to how he or she should vote in connection with the Arrangement.

The Fairness Opinion has been provided for the use of the Independent Committee and may not be used or relied upon by any other person without the express prior written consent of Wood Gundy. Wood Gundy is providing the Fairness Opinion as of the date hereof and disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to Wood Gundy's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, Wood Gundy reserves the right to change, modify or withdraw the Fairness Opinion.

In connection with the provision of the Fairness Opinion to the Independent Committee, we have performed a variety of financial and comparative analyses, including those described below. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant assumptions and methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to summary description. Furthermore, in preparing the Fairness Opinion, we have not attributed any particular weight to any analysis or factor considered by us, but rather have made qualitative judgments based on our experience in rendering such opinions and on circumstances then prevailing as to the significance and relevance of each analysis and factor. Accordingly, we believe that our analyses must be considered as a whole and that to focus on specific portions of such analyses and of the factors considered, without considering all analyses and factors, would create an incomplete and misleading view of the process underlying the Fairness Opinion.

Fairness Methodology — Technology Heads of Agreement

In assessing the fairness of the Technology Heads of Agreement from a financial point of view to the Public Shareholders (the "Technology Heads of Agreement Opinion"), we considered the following factors:

(i) the financial implications of the Technology Heads of Agreement to MergeCo (being the dollar value and timing of the expected costs and benefits under the agreement);

(ii) the alternative agreements which could reasonably be expected to have been secured by MergeCo if the Technology Heads of Agreement had not been entered into with GTE;

(iii) comparison of the Technology Heads of Agreement to information available to us regarding certain other agreements of a similar nature involving other parties; and

(iv) the process through which the Technology Heads of Agreement was negotiated, including the nature and extent of TELUS's participation in the negotiations.

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Fairness of the Technology Heads of Agreement

Wood Gundy engaged in extensive discussions with the BCT management personnel involved in negotiating the Technology Heads of Agreement regarding the proposed terms of the agreement, commencing during the last week of September 1998. Wood Gundy was provided with updates during the negotiation process and reviewed with BCT the rationale for the proposed material terms of the agreement, as well as the potential for negotiation of alternative provisions where appropriate. We also reviewed with BCT and TELUS management the expected strategic benefits and tangible savings expected to be realized by MergeCo pursuant to the agreement, as estimated by BCT and TELUS and their respective financial advisers. In considering the fairness of the Technology Heads of Agreement to the Public Shareholders, we considered the factors described below.

Financial Implications of the Technology Heads of Agreement

BCT and TELUS operations personnel performed extensive analysis and investigations of the specific tangible operating and capital cost savings expected to be realized from the Technology Heads of Agreement. These savings relate to (i) information technology (primarily applications development), (ii) replacement of certain services currently provided to BCT and TELUS by the Stentor alliance of incumbent local exchange carriers ("ILECs") and reduction of the associated costs of those services, (iii) savings associated with application of GTE's volume buying power to procure products and services from third-party vendors at reduced prices, (iv) replacement of the services and associated costs to BCT and TELUS of the Operations Development Consortium, an alliance composed of BCT, TELUS and Bell Canada, and (v) replacement of the services currently provided by GTE to BCT, and the costs associated with those services, under the existing technology sharing agreement between GTE and BCT, which is to be superseded by the definitive agreement contemplated by the Technology Heads of Agreement.

Wood Gundy participated in due diligence discussions with BCT and TELUS management personnel and BCT's financial advisors to review their assumptions regarding the expected tangible savings from the Technology Heads of Agreement. We also analyzed the expected payments to be made by MergeCo to GTE contemplated by the Technology Heads of Agreement, including the expected tax treatment to MergeCo of such payments (which was the subject of discussions with BCT's specialized tax counsel). We calculated the net present value of the after-tax cash flows associated with the Technology Heads of Agreement, considering only the tangible operating and capital cost benefits described above. Based on our analysis, we concluded that the Technology Heads of Agreement had an expected positive net present value to MergeCo. This analysis did not take into account any benefit to MergeCo associated with the brands, trademarks and marketing assistance which are expected to be provided to MergeCo pursuant to the agreement.

Based on and subject to the foregoing, our analysis of the financial implications of the Technology Heads of Agreement supports the conclusion in the Technology Heads of Agreement Opinion.

Alternatives to the Technology Heads of Agreement

Wood Gundy reviewed with BCT and TELUS management the reasonably attainable alternatives to the Technology Heads of Agreement in terms of obtaining another partner for MergeCo to provide ongoing technological support and branding assistance or proceeding with the Arrangement without any such partner.

Based on and subject to the foregoing, our analysis of the alternatives to the Technology Heads of Agreement supports the conclusion in the Technology Heads of Agreement Opinion.

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Comparison to Available Information Regarding Certain Similar Agreements

We compared the services and associated costs contemplated by the Technology Heads of Agreement to the available information regarding certain agreements of a similar nature, such as the branding and technology agreement between Sprint Communications Company and Call-Net Enterprises Inc. entered into in August 1993 (summary information regarding which agreement was available in the public domain). Our comparison of the Technology Heads of Agreement to other similar agreements was subject to three primary limitations: (i) there are relatively few examples of such agreements, (ii) there is limited publicly available information on such agreements, and (iii) such agreements are not standardized and the relative bargaining positions of the parties at the time the agreements are entered into can vary significantly. We did determine that certain material terms of the Technology Heads of Agreement relating to the breadth of the branding and technology assistance to be provided and the associated fees payable are at least as favourable to MergeCo as the similar terms in the comparable agreements are to the corresponding recipients of the branding and technology assistance.

Based on and subject to the foregoing, our analysis of available information regarding certain agreements of a similar nature to the Technology Heads of Agreement supports the conclusion in the Technology Heads of Agreement Opinion.

Negotiation Process

We understand from our due diligence investigations that TELUS personnel led the negotiation of the Technology Heads of Agreement on behalf of MergeCo. TELUS had previous experience with branding and technology agreements as it had pursued negotiations with another major U.S.-based telecommunications company within the previous year, without reaching an acceptable outcome to TELUS. TELUS's leadership in the negotiations was indicative to us of the arm's length quality of the negotiation process, from the standpoint of MergeCo. Given Wood Gundy's discussions with BCT during the period when the negotiations reached a critical stage, we are aware of the nature of the negotiations and the key issues involved. We also are aware of BCT's overall goals in the negotiations on behalf of MergeCo and the extent to which the negotiations resulted in BCT's achievement of those goals. On the basis of these factors, we believe that the negotiation process supports the conclusion in the Technology Heads of Agreement Opinion.

Conclusion in the Technology Heads of Agreement Opinion

Based upon and subject to the foregoing and such other factors as we considered relevant, Wood Gundy is of the opinion that, as at the date hereof, the Technology Heads of Agreement is fair from a financial point of view to the Public Shareholders.

Fairness Methodology — Arrangement

In assessing the fairness from a financial point of view of the Share Exchange Ratios, and resulting Pro Forma BCT Ownership Percentage, under the Arrangement (the "Arrangement Opinion"), we employed the methodology described below.

(i) *Relative Share Values*

In order for the Share Exchange Ratios and resulting Pro Forma BCT Ownership Percentage to be considered fair to BCT Shareholders, we considered that they should fairly reflect the relative values of BCT Shares, in the aggregate, and TELUS Shares, in the aggregate. To assess such relative values, we considered the values for these shares as implied by (i) the public trading values for the shares; (ii) the relative contribution to MergeCo by BCT and TELUS under the Arrangement, in terms of net income, cash flow and other indicators of

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financial and operating contribution; (iii) analyses based on the implied valuation multiples for comparable publicly traded telecommunications companies; and (iii) discounted cash flow ("DCF") analyses of BCT and TELUS.

(ii) ***Absolute Share Values***

We also considered the estimated absolute values of the MergeCo Shares to be received by BCT Shareholders in comparison to the absolute value of the BCT Shares held prior to the Arrangement. In this context, we included in our analysis, among other things, the expected operating synergies from combining BCT and TELUS and the expected strategic positioning and trading liquidity of MergeCo relative to BCT on its own.

Our absolute value approach included DCF analyses of BCT and MergeCo. Such analyses involved consideration of the implied value of the BCT Shares without adjusting downward to reflect the fact that the BCT Shares held by the Public Shareholders do not form part of a controlling interest. We did observe, as described below, the potential benefit to the Public Shareholders of the diluted proportionate interest in MergeCo which GTE will hold upon implementation of the Arrangement, compared to GTE's current majority interest in BCT.

(iii) ***Transaction Process***

In preparing the Arrangement Opinion, we also reviewed and considered the process through which the Share Exchange Ratios and other terms of the Arrangement were negotiated between BCT and TELUS, including the involvement of GTE in the negotiations and GTE's ultimate support for implementation of the Arrangement.

(iv) ***Other Analyses***

We have also completed such other analyses and investigations as were considered by us to be appropriate in the circumstances for the purpose of arriving at an opinion as to whether the Share Exchange Ratios, and resulting Pro Forma BCT Ownership Percentage, are fair from a financial point of view to BCT Shareholders including the Public Shareholders.

Fairness of the Arrangement

(i) ***Relative Value of Shares of BCT and TELUS***

An important aspect of our Arrangement Opinion analysis was our estimation of the relative values of the shares of BCT and TELUS, in order to determine whether the Share Exchange Ratios, and resulting Pro Forma BCT Ownership Percentage, are fair from a financial point of view to BCT Shareholders, including the Public Shareholders. The results of this relative value analysis are described below.

Public Trading Values

We reviewed the relative market capitalizations of BCT and TELUS in assessing the relative contributions of BCT and TELUS to MergeCo.

The relative market capitalizations of BCT and TELUS provided us with a significant indicator of the relative value of the two companies, given that: (i) BCT and TELUS have relatively large public floats and a high degree of trading liquidity; and (ii) BCT and TELUS are well followed by equity research analysts (more than 10 firms cover each company) and there are several comparable public telecommunications companies in Canada and the United States which provide helpful benchmarks for investors.

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On October 9, 1998, the trading price of BCT Shares increased by approximately 11.3%, from $35.95 at closing on the previous day to $40.00 at closing on October 9th. We attribute this one-day price increase to the crystallized market expectation that a business combination between BCT and TELUS was likely to occur within a short period of time, following periodic rumors over the previous several months of the possibility of such a combination. Subsequently, BCT's share price increased by a further 6% over the week of October 12th, closing at $42.40 on October 16th. During that week, BCT and TELUS issued a press release (on October 14th), at the request of the Toronto Stock Exchange, confirming that they were in discussions to explore the possibility of a business combination between them. Given our view that the trading prices for BCT and TELUS's shares subsequent to October 8, 1998 were affected by market speculation regarding an impending business combination between the two companies, we analyzed the public trading values of the companies' shares only up to October 8, 1998. In so doing, we sought to determine the market's assessment of the fundamental value of each company individually, rather than the possible implications of a business combination between them.

The prices for BCT's and TELUS's shares at the close of trading on October 8, 1998 implied a Pro Forma BCT Ownership Percentage of approximately 51%. Accordingly, the Pro Forma BCT Ownership Percentage under the Arrangement represented, in effect, a discount of approximately 6% to TELUS's closing trading price on that date.

Based on and subject to the foregoing, as well as other public trading data we reviewed for BCT and TELUS's shares over various time periods, we conclude that the public trading values of BCT and TELUS's shares support the conclusion in the Arrangement Opinion.

Relative Contribution to MergeCo

We considered the relative contribution to MergeCo of BCT and TELUS in terms of various financial benchmarks, such as (i) revenue, (ii) earnings before interest, taxes, depreciation and amortization ("EBITDA"), (iii) earnings before interest and taxes, (iv) net earnings and (v) operating cash flow. For purposes of our financial analysis, we made certain adjustments to the figures to exclude extraordinary items and account for differences in accounting policies (e.g., asset write-down and depreciation policies) between the two companies. The primary financial benchmarks relied on in our relative contribution analysis were net earnings and cash flow, for the 1998 and 1999 estimated results for BCT and TELUS. On that basis, our calculated range for the implied Pro Forma BCT Ownership Percentage was approximately 50.2% to 54.3%.

We also analyzed the relative contribution of BCT and TELUS by reference to the average trading multiples for certain comparable public companies (i.e., the publicly traded ILECs in Canada, and, for additional reference, in the United States). The implied range for the Pro Forma BCT Ownership Percentage was approximately 50.2% to 56.3%, by reference to the estimated 1998 and 1999 results for BCT and TELUS (price to earnings, enterprise value to EBITDA and price to cash flow being the key multiples considered).

Based on and subject to the foregoing, our relative value analysis supports the conclusion in the Arrangement Opinion.

DCF Analysis of BCT and TELUS

We performed a DCF analysis of BCT and TELUS as an additional benchmark for estimating the relative value of the two companies. The DCF approach takes into account the amount, timing and relative certainty of projected free cash flows expected to be generated by the company being analyzed. The DCF approach requires that certain assumptions be made regarding, among other things, future cash flows, discount rates and terminal values.

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We obtained financial projections for the period from 1998 to 2003 for each of BCT and TELUS. We participated in due diligence discussions with BCT and TELUS management personnel to determine what adjustments or sensitivity analyses would be appropriate in using those projections in our DCF analysis. BCT and TELUS both have a three-year planning horizon, and accordingly their financial projections focus on the 1998 to 2000 period. The projections for the 2001 to 2003 period were considered by both management teams as providing general direction only, especially given the difficulty of forecasting beyond the near-term in a rapidly changing industry. The shortness of the projection period (i.e., ending in 2003) made the results of our analysis less robust, as the terminal value (i.e., the present value of the cash flows expected to be generated after 2003) represented a high percentage of the total estimated DCF value for each company (i.e., over 70%). While we accepted for the most part the financial projections provided to us by BCT and TELUS, we also performed various sensitivity analyses to test the fairness of the Pro Forma BCT Ownership Percentage under different alternative projection assumptions. The results of our base case analysis provided a range of approximately 51.1% to 54.0% for the implied Pro Forma BCT Ownership Percentage.

The discount rate used in our DCF analysis was the estimated weighted average cost of capital ("WACC") for each of the two companies. Our WACC estimates for the two companies were determined in light of the current prevailing risk-free rates of return, equity market risk premiums and the estimated borrowing costs for BCT and TELUS. The WACCs chosen reflect the financial returns required by debt and equity investors assuming an appropriate capital structure for each of BCT and TELUS. Given the great similarity between the risks associated with the two companies' businesses and their capital structures, we believed it was appropriate when our calculated WACC estimates indicated that the WACCs for the two companies were almost identical. Given that the patterns of projected cash flows and WACC levels for the two companies were both very similar, the implied Pro Forma BCT Ownership Percentage under our DCF analysis was very insensitive to the absolute level of the WACC selected for the two companies. We estimated a WACC range for both BCT and TELUS at between 8% and 9%.

For the possible ranges of values for the free cash flows generated by BCT and TELUS subsequent to 2003, we considered two alternative approaches: (i) applying alternative "exit" valuation multiples of EBITDA to each of BCT and TELUS and then discounting the resulting values to the present using the estimated WACC for each company, and (ii) applying alternative growth rates, each as a perpetuity, to the free cash flows subsequent to 2003 and then discounting the resulting free cash flows to the present using the estimated WACC for each company.

Based on and subject to the foregoing, our DCF analysis supports the conclusion in the Arrangement Opinion.

(ii) ***Estimated Absolute Value for BCT and MergeCo***

In addition to considering the *relative* value of the BCT and TELUS shares being exchanged under the Arrangement, we also analyzed the estimated *absolute* value of the MergeCo Shares to be received by BCT Shareholders. This analysis took into account the estimated synergies from the Arrangement and the range of expected public trading values for MergeCo.

One absolute value methodology which we applied was an analysis of the accretion or dilution in earnings per share ("EPS") which could be expected to accrue to BCT Shareholders as a result of the Arrangement per BCT Share contributed to MergeCo. We considered various alternative cases for this analysis, depending on the treatment of differing accounting policies between the two companies, different synergy assumptions for MergeCo and different treatment of the expected one-time restructuring and transaction costs associated with the Arrangement. We believed that the most meaningful methodology was to adjust the earnings of the

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two companies so as to harmonize their accounting policies (i.e., equalize the latest substantial asset write-downs of the two companies as a proportion of previous asset values and account for different depreciation policies), to include the expected first-year synergies from the Arrangement and to exclude the one-time restructuring costs from the base EPS to which a multiple was applied (and instead to separately subtract such one-time costs, on an after-tax basis, from MergeCo's expected share price). The result of this analysis was to imply an expected pro forma value per BCT Share which was, at minimum, equivalent to the current trading value of BCT Shares and potentially substantially accretive within the expected range of price-earnings multiples for MergeCo. We also performed sensitivity analyses on our results with respect to the expected synergies from the Arrangement, to confirm the reliability of our base case conclusions.

Another methodology which we employed in estimating the absolute value impact on BCT Shareholders of the Arrangement was to compare the estimated DCF value for BCT (calculated as described above) to the estimated DCF value for MergeCo (accounting for the expected synergies from the Arrangement over time and other factors). The results of this analysis was to indicate an absolute value increase per BCT Share.

In considering the estimated absolute value of the MergeCo Shares to be received by BCT and TELUS shareholders, we noted that the MergeCo Non-Voting Shares will likely trade at a small discount to the MergeCo Common Shares, based on our review of the trading history of other public companies with a class of subordinate or non-voting equity shares. The discount should not be material, as the two classes of shares have an equal entitlement to dividends. In addition, there are "coat-tail" provisions attaching to the MergeCo Non-Voting Shares such that, if a take-over bid is made for MergeCo Common Shares which applicable securities law requires be made to all holders of such shares, then the MergeCo Non-Voting Shares become convertible into MergeCo Common Shares. We understand that the reason for incorporating a class of non-voting shares into MergeCo's capital structure was to increase the ability of non-Canadian investors to acquire MergeCo Shares, given the current limit under Canadian law on foreign ownership in Canadian telecommunications companies of 33⅓ per cent of the voting shares outstanding. In the event that Canadian law changes so as to eliminate the limit on foreign ownership, the MergeCo Non-Voting Shares will be converted into MergeCo Common Shares.

Based on and subject to the foregoing, our absolute value analysis supports the conclusion in the Arrangement Opinion.

(iii) ***Transaction Process***

In our due diligence discussions with management at BCT and TELUS, we established to our reasonable satisfaction that the Arrangement negotiations had been carried out on an arm's length basis between the BCT and TELUS negotiation teams, each seeking the best possible transaction for its constituent shareholders. In deciding whether to proceed with the Arrangement, BCT's negotiating team properly considered the alternatives to a business combination with TELUS, as well as the status quo. The BCT negotiating team was well staffed with experienced and senior personnel, and the team was advised by experienced outside professional advisers.

Given that the market value of GTE's ownership position in BCT (at over $2 billion) was and is much greater than the value of GTE's financial interest under the Technology Heads of Agreement, we have no reason to believe that GTE's goal of maximizing the realized value for GTE's BCT Shares was not a primary factor in GTE's eventual agreement to support the Arrangement.

As noted above, a senior officer of GTE has represented to us, in a certificate delivered as of the date hereof, among other things, that (i) GTE and Anglo agreed to vote in favour of the Arrangement as a result of negotiations with TELUS, (ii) GTE had full knowledge of, and access to, information concerning BCT such that

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the underlying value of BCT was a material factor considered by GTE in agreeing to support the terms of the Arrangement, and in particular the Pro Forma BCT Ownership Percentage, (iii) although the strategic implications to BCT of the Technology Heads of Agreement were relevant to GTE's determination to support the Arrangement, neither the amount of the payments to be made to GTE thereunder nor any non-financial factors peculiar to GTE were material factors considered by GTE in agreeing to support the Pro Forma BCT Ownership Percentage under the Arrangement, and (iv) there are no material collateral arrangements between GTE or its affiliates on one side and TELUS or its affiliates on the other side.

Based on and subject to the foregoing, the transaction process supports the conclusion in the Arrangement Opinion.

(iv) ***Other Analyses***

Wood Gundy had substantial discussions with BCT management and the Independent Committee regarding the strategic aspects of the Arrangement, including a review of the alternative strategic initiatives which BCT reasonably could pursue. BCT management believes that the strategic benefits of the Arrangement to BCT are significant.

Wood Gundy reviewed MergeCo's ability to pay dividends to its shareholders, relative to BCT's current ability to pay dividends, measured in terms of the ratio of dividends to earnings per share. Based on this analysis, Wood Gundy is of the view that MergeCo will have no materially greater difficulty in paying dividends at least equal to the current dividends paid per BCT share.

Wood Gundy observed that one result of the Arrangement would be a dispersion of control by GTE, as GTE would not hold a majority of the shares of MergeCo, in contrast to its current majority ownership of the BCT Shares outstanding. The effect of this dispersion of control would be a potentially higher likelihood of a change of control transaction involving MergeCo which could provide the Public Shareholders with a share of any control premium.

Based on and subject to the foregoing, our analysis of certain other factors pertaining to the Arrangement supported the conclusion in the Arrangement Opinion.

Conclusion in the Arrangement Opinion

Based on and subject to the foregoing and such other factors as we considered relevant, Wood Gundy is of the opinion that, as at the date hereof, the Share Exchange Ratios, and resulting Pro Forma BCT Ownership Percentage, are fair from a financial point of view to BCT Shareholders, including the Public Shareholders.

Yours very truly,

CIBC WOOD GUNDY SECURITIES INC.

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RBC DOMINION SECURITIES

RBC Dominion Securities Inc.
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Telephone: (416) 842-2000
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December 8, 1998

The Board of Directors
TELUS Corporation
10020 - 100th Street N.W.
Edmonton, Alberta T5J 0N5

To the Board:

RBC Dominion Securities Inc. ("RBC DS") understands that TELUS Corporation ("TELUS" or the "Company") and B.C. TELECOM Inc. ("BC TEL") have entered into an agreement (the "Amended and Restated Arrangement Agreement") dated as of October 27, 1998 to complete a merger of equals (the "Transaction") by way of plan of arrangement. As a result of the Transaction, to the extent of 75% of the holdings, the holders of TELUS common shares ("Common Shares") will receive 0.7773 of a common share of BCT.TELUS Communications Inc. for each Common Share and to the extent of 25% of the holdings, the holders of Common Shares will receive 0.7773 of a non-voting common share of BCT.TELUS Communications Inc. for each Common Share. Shareholders of BC TEL will receive to the extent of 75% of the holdings one common share of BCT.TELUS Communications Inc. for each BC TEL common share and to the extent of 25% of the holdings, the holders of BC TEL common shares will receive one non-voting common share of BCT.TELUS Communications Inc. for each BC TEL common share. The terms of the Transaction will be more fully described in a proxy circular (the "Circular"), which will be mailed to shareholders of the Company in connection with the Transaction.

The Company has retained RBC DS to provide advice and assistance to the Company in evaluating the Transaction, including the preparation and delivery to the board of directors (the "Board") of the Company of RBC DS' opinion as to the fairness of the Transaction from a financial point of view to the holders of Common Shares (the "Fairness Opinion"). RBC DS has not prepared a valuation of the Company or BC TEL or any of their respective securities or assets and the Fairness Opinion should not be construed as such.

Engagement

The Company engaged RBC DS as of September 1, 1997, to advise the Company on strategic alternatives, including the Transaction. Through an agreement between the Company and RBC DS (the "Engagement Agreement") dated as of June 1, 1998, the Company retained RBC DS to advise on a possible merger of equals with BC TEL. RBC DS consents to the inclusion of the Fairness Opinion in its entirety and a summary thereof in the Circular and to the filing thereof, as necessary, by the Company with the securities commissions or similar regulatory authorities in each province of Canada.

Member of Royal Bank Financial Group

Relationship With Interested Parties

Neither RBC DS, nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario) (the "Act")) of the Company, BC TEL or any of their respective associates or affiliates. RBC DS has not been engaged to provide any financial advisory services for the Company, BC TEL or any of their respective associates or affiliates, within the past two years, other than the services provided under the Engagement Agreement and as disclosed herein. RBC DS was engaged jointly by BC TEL and ISM Information Systems Management (B.C.) Corporation in August, 1998 to provide financial advisory services in connection with a possible outsourcing transaction. Other than the Engagement Agreement there are no understandings, agreements or commitments between RBC DS and the Company, BC TEL or any of their respective associates or affiliates with respect to any future business dealings. RBC DS may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Company, BC TEL or any of their respective associates or affiliates. The Royal Bank of Canada, controlling shareholder of RBC DS, provides banking services to the Company and BC TEL in the normal course of business.

RBC DS acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, BC TEL or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, RBC DS conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, BC TEL or the Transaction.

Credentials of RBC Dominion Securities

RBC DS is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Fairness Opinion expressed herein represents the opinion of RBC DS and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

Scope of Review

In connection with our Fairness Opinion, we have reviewed and relied upon or carried out, among other things, the following:

1. draft of the Circular in substantially final form;
2. the Amended and Restated Arrangement Agreement including the plan of arrangement and Heads of Agreement, Voting Agreement and Long Term Relationship Agreement scheduled thereto dated October 27, 1998;
3. audited financial statements of the Company and BC TEL for each of the three years ended December 31, 1997;
4. the unaudited interim reports of the Company and BC TEL for the nine months ended September 30, 1998;
5. annual reports of the Company and BC TEL for each of the two years ended December 31, 1997;
6. the Notice of Annual Meeting of Shareholders and Management Information Circulars of the Company and BC TEL for each of the two years ended December 31, 1997;
7. annual information forms of the Company and BC TEL for each of the two years ended December 31, 1997;
8. historical segmented financial statements of the Company and BC TEL by business unit for the three years ended December 31, 1997;

9. internal management budgets of the Company and BC TEL on a consolidated basis and segmented by business unit for the year ending December 31, 1998;

10. unaudited projected financial statements for the Company and BC TEL on a consolidated basis (and segmented by business unit for the Company) prepared by management of the Company and BC TEL, respectively for the years ending December 31, 1998 through December 31, 2000;

11. discussions with senior management of the Company and BC TEL;

12. discussions with the Company's and BC TEL's auditors and legal counsel;

13. public information relating to the business, operations, financial performance and stock trading history of the Company, BC TEL and other selected public companies considered by us to be relevant;

14. public information with respect to other transactions of a comparable nature considered by us to be relevant;

15. public information regarding the telecommunications industry;

16. discussions with the financial advisors to BC TEL;

17. representations contained in certificates addressed to us, dated as of the date hereof, from senior officers of the Company and BC TEL as to the completeness and accuracy of the information upon which the Fairness Opinion is based; and

18. such other corporate, industry and financial market information, investigations and analyses as RBC DS considered necessary or appropriate in the circumstances.

RBC DS has not, to the best of its knowledge, been denied access by the Company and BC TEL to any information requested by RBC DS.

Assumptions and Limitations

With the Board's approval and as provided for in the Engagement Agreement, RBC DS has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources, senior management of the Company and BC TEL and their consultants and advisors (collectively, the "Information"). The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information.

Senior officers of the Company have represented to RBC DS in a certificate delivered as of the date hereof, among other things, that (i) the Information (as defined above) provided orally by, or in the presence of, an officer of the Company or in writing by the Company or any of its subsidiaries or their respective agents to RBC DS relating to the Company or any of its subsidiaries or to the Transaction, for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to RBC DS, and is, except as has been disclosed to RBC DS, complete, true and correct in all material respects, and did not, except as has been disclosed to RBC DS, and does not, contain any untrue statement of a material fact in respect of the Company, its subsidiaries or the Transaction, and did not, except as has been disclosed to RBC DS, and does not, omit to state a material fact in respect of the Company, its subsidiaries or the Transaction necessary to make the Information not misleading in light of the circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to RBC DS, except as disclosed to RBC DS, or as publicly disclosed by the Company, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its subsidiaries and no material change has occurred in the Information or any part thereof which would have, or which would reasonably be expected to have, a material effect on the Fairness Opinion. Senior officers of BC TEL have made the same representations to RBC DS in a separate certificate delivered as of the date hereof.

In preparing the Fairness Opinion, RBC DS has made several assumptions, including that all of the conditions required to implement the Transaction will be met.

The Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company, BC TEL and their respective subsidiaries and affiliates, as they were reflected in the Information and as they have been represented to RBC DS in discussions with management of the Company and BC TEL. In its analyses and in preparing the Fairness Opinion, RBC DS made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of RBC DS or any party involved in the Transaction.

The Fairness Opinion has been provided for the use of the Board and may not be used by any other person or relied upon by any other person other than the Board without the express prior written consent of RBC DS. The Fairness Opinion is given as of the date hereof and RBC DS disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to RBC DS' attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, RBC DS reserves the right to change, modify or withdraw the Fairness Opinion.

RBC DS believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any securityholder of the Company as to whether to vote in favour of the Transaction.

Fairness Analysis

Approach to Fairness

In considering the fairness of the Transaction from a financial point of view to the holders of Common Shares, RBC DS compared the consideration to be received by holders of Common Shares (being voting and non-voting common shares of BCT.TELUS Communications Inc.) to the market trading value of the Common Shares. We have also considered the recent market trading of the Common Shares and the common shares of BC TEL. RBC DS also compared the relative contribution of revenues, earnings, cash flow, EBITDA, EBIT and assets by the Company and BC TEL to the relative ownership of BCT.TELUS Communications Inc. to be received by the holders of Common Shares. RBC DS did not believe it would be appropriate and hence did not complete an en bloc value analysis of the Company given that the Transaction is a merger of equals and holders of Common Shares will receive voting and non-voting common shares of BCT.TELUS Communications Inc., with the opportunity to participate in any en bloc transactions involving BCT.TELUS Communications Inc. in the future.

Fairness Conclusion

Based upon and subject to the foregoing, RBC DS is of the opinion that, as of the date hereof, the Transaction is fair from a financial point of view to the holders of Common Shares.

Yours very truly,

RBC Dominion Securities Inc

RBC DOMINION SECURITIES INC.

SALOMON SMITH BARNEY

A Member of TravelersGroup

December 8, 1998

Board of Directors
TELUS Corporation
10020 - 100 Street N.W.
Edmonton, Alberta T5J 0N5
Canada

Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the common shares ("TELUS Common Shares") of TELUS Corporation ("TELUS"), of the consideration to be received by such holders in connection with the proposed arrangement (the "Arrangement") under the Canada Business Corporations Act and the Business Corporations Act (Alberta) concerning BC TELECOM Inc. ("BC TELECOM"), TELUS, BCT.TELUS Communications Inc. ("MergeCo"), 3481646 Canada Inc., the holders of the common shares ("BC TELECOM Common Shares") of BC TELECOM and the holders of TELUS Common Shares, pursuant to an Amended and Restated Arrangement Agreement, dated as of October 27, 1998 (the "Arrangement Agreement"), between BC TELECOM, TELUS and MergeCo. Upon the effectiveness of the Arrangement, 75% of the issued and outstanding TELUS Common Shares held by each holder thereof will be assigned in consideration for 0.7773 (the "Exchange Ratio") common shares ("MergeCo Common Shares") of MergeCo, and 25% of the issued and outstanding TELUS Common Shares held by each holder thereof will be assigned in consideration for a number of non-voting shares ("MergeCo Non-Voting Shares") of MergeCo equal to the Exchange Ratio, in each case other than shares the subject of dissenters' rights. In addition, upon the effectiveness of the Arrangement, 75% of the issued and outstanding BC TELECOM Common Shares held by each holder thereof will be assigned in consideration for one MergeCo Common Share, and 25% of the issued and outstanding BC TELECOM Common Shares held by each holder thereof will be assigned in consideration for one MergeCo Non-Voting Share, in each case other than shares the subject of dissenters' rights.

In connection with rendering our opinion, we have reviewed certain publicly available information concerning TELUS and BC TELECOM and certain other financial information concerning TELUS and BC TELECOM, including financial forecasts, that were provided to us by TELUS and BC TELECOM, respectively. We have discussed the past and current business operations, financial condition and prospects of TELUS and BC TELECOM with certain officers and employees of TELUS and BC TELECOM, respectively. We have also considered such other information, financial studies, analyses, investigations and financial, economic and market criteria that we deemed relevant.

In our review and analysis and in arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this opinion and we have not assumed any responsibility for independent verification of such information. With respect to the financial forecasts of TELUS and BC TELECOM, we have been advised by the respective managements of TELUS and BC TELECOM that such forecasts have been reasonably prepared on bases reflecting their best currently available estimates and judgments, and we express no opinion with respect to such forecasts or the assumptions on which they are based. We have assumed that the operational benefits anticipated by the managements of TELUS and BC TELECOM to be achieved will be realized. We have not assumed any responsibility for any

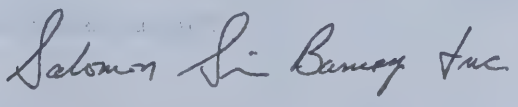
independent evaluation or appraisal of any of the assets (including properties and facilities) or liabilities of TELUS or BC TELECOM. We understand that the Arrangement will be accounted for as a pooling-of-interest in accordance with Canadian generally accepted accounting principles.

Our opinion is necessarily based upon conditions as they exist and can be evaluated on the date hereof. Our opinion as expressed below does not imply any conclusion as to the likely trading range for MergeCo Common Shares following the consummation of the Arrangement, which may vary depending upon, among other factors, changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. Our opinion does not address the TELUS underlying business decision to effect the Arrangement, and we express no view on the effect on TELUS of the Arrangement and related transactions. Our opinion is directed only to the fairness, from a financial point of view, of the Exchange Ratio to holders of TELUS Common Shares and does not constitute a recommendation concerning how holders of TELUS securities should vote with respect to the Arrangement Agreement or the Arrangement.

We have acted as financial advisor to the Board of Directors of TELUS in connection with the Arrangement and will receive a fee for our services, a significant portion of which is contingent upon consummation of the Arrangement. In the ordinary course of business, we and our affiliates may hold or actively trade the securities of TELUS and BC TELECOM for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates have previously rendered certain investment banking and financial advisory services to TELUS for which we have received customary compensation. We and our affiliates (including Citigroup Inc.) may have other business relationships with TELUS or BC TELECOM in the ordinary course of their businesses.

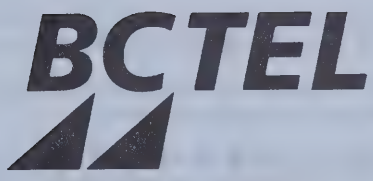
Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair to the holders of TELUS Common Shares from a financial point of view.

Very truly yours,



SALOMON SMITH BARNEY INC.

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BC TELECOM Inc.

INFORMATION RELATING TO BC TELECOM INC.

APPENDIX G — INFORMATION RELATING TO BC TELECOM INC.

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BC TELECOM INC.

ANNUAL INFORMATION FORM

April 28, 1998

BC TELECOM INC. ANNUAL INFORMATION FORM

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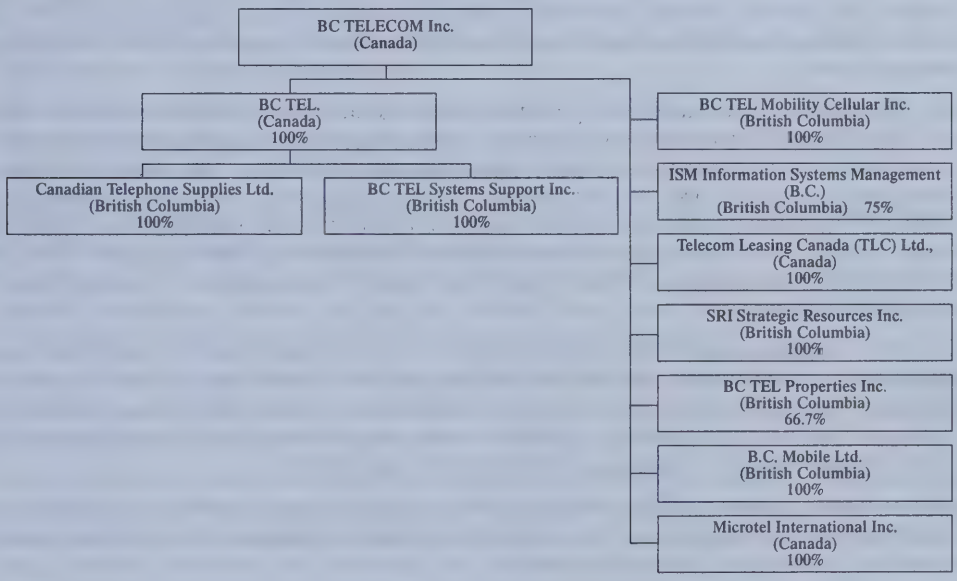
APPENDIX B G-28

THE CORPORATION

BC TELECOM Inc. was incorporated on November 14, 1984, under the *Canada Business Corporations Act* (the "CBCA"). Effective May 1, 1993 Articles of Amendment were filed with the Director under the CBCA whereby BC TELECOM became the holding company of BC TEL and its subsidiaries, and all holders of ordinary shares of BC TEL became holders of common shares of BC TELECOM (the "Reorganization").

BC TELECOM's head and principal office is located at 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7. The term "BC TELECOM" or the "Corporation" shall be used interchangeably and unless the context otherwise indicates, the latter term includes its direct and indirect subsidiaries. The term "BC TELECOM group" means BC TELECOM and all of its subsidiaries.

The corporate structure and jurisdiction of incorporation of the principal subsidiaries within the BC TELECOM group are as follows:



(1) 33.3% of the shares of BC TEL Properties Inc. are held by BC TEL Mobility Cellular Inc.

BUSINESS OF BC TELECOM

BC TELECOM is one of the largest telecommunications corporations in Canada, offering a comprehensive portfolio of communications services through its subsidiaries, including BC TEL, BC TEL Mobility Cellular Inc, BC TEL Systems Support Inc., ISM Information Systems Management (B.C.) Corporation and others.

BC TEL, its principal subsidiary, owns and operates Canada's second largest telephone operating system, servicing areas in that approximately 99% of the Province of British Columbia's population of approximately 3.9 million reside. Its network includes the British Columbia portion of a Canadian route for voice, data and image communications services including the British Columbia portion of the coast-to-coast microwave networks and the transcontinental high-density fibre optic transmission system used by the members of Stentor Canadian Network Management.

As the holding company of the BC TELECOM group, BC TELECOM through its Strategic Business Development Division provides direction to the BC TELECOM group with respect to the development of corporate growth strategies, including mergers and acquisitions. In addition, BC TELECOM provides direction to its subsidiaries with respect to financing matters. BC TELECOM's operating structure consists of three divisions: Marketing, Sales & Customer Service and Operations. These divisions are supported by other

major groups including Law and Regulatory Affairs, Corporate Services, Human Resources and Corporate Communications.

Marketing

The Marketing Division is responsible for the marketing of all the telecommunications services offered by BC TELECOM including local and long distance voice services for both consumer and business markets, prepaid cards, data network services, customer premises telecommunications equipment and lease financing, and cellular and paging services. This division is also responsible for the following:

- *BC TEL Interactive* develops and markets a range of interactive and multimedia products and services. Current services include a consumer Internet service (Sympatico); the official B.C. accommodation reservation service (Super Natural British Columbia Reservation Service, B.C.'s first campground reservation service (Discover Camping); interactive voice response services; electronic commerce services; web hosting services; interactive financial services (through Rapport Interactive); and new Yellow Pages services that incorporate technologies such as interactive voice response and the internet access.
- *BC TEL Advanced Communications* provides a full range of data communications services throughout B.C., North America and world-wide. Services range from regulated data connection services, such as private line and the Integrated Services Digital Network (ISDN) e.g. Microlink* and Megalink*, to high-speed emerging services, including frame relay based (Hyperstream*) and Asynchronous Transfer Mode (ATM) based inter-LAN connection services. It also provides Asynchronous Digital Subscriber Loop (ADSL) based consumer internet services (Multimedia Gateway*). BC TEL Advanced Communications is a leader in the provision of retail and wholesale internet services for the province's business community.
- *BC TEL Communications Systems* provides business and residential customers with customer-premise equipment and applications such as PBX and key systems, Centrex services and telephone systems, consumer telephone equipment and telecommunications management services. It also provides customers with new and emerging applications such as call centres, computer telephone integration (CTI), voicemail with fax integration, and interactive voice response.
- *Telecom Leasing Canada (TLC) Limited* offers an array of financial services to business customers, including financing for customer owned telecommunications equipment, vehicle fleet leasing, capital equipment financing and financial consulting.

Sales & Customer Service

The Sales & Customer Service Division provides an integrated point-of-contact for BC TELECOM's customers and consists of various groups including:

- *BC TEL Call Centre* is the sales channel to residential customers with representatives focussing on building and maintaining customer loyalty, winning customers back from competitors and selling the company's products and services.
- *BC TEL Corporate Sales* provides sales channels to large business and government accounts, and small office/home office and residential customers. A sales support organization includes the presentation centre, consultant liaison, customer proposal and preparation and administration.
- *Credit Services & Billing* is responsible for credit policy and the management of collections functions.
- *Customer Service* is the prime point of telephone contact for BC TEL's residential and its small and medium business customers who want to place orders for products and services, change existing service, and make general inquiries.
- *ISM Information Systems Management (B.C.) Corporation* provides BC TELECOM and other customers with computer systems operations services.

- *Retail Sales-PhoneMarts* provides small office/home office and residential customers with a face-to-face contact for a range of communications solutions at 30 PhoneMart stores located throughout the province.
- *Service Assurance* provides 24-hour trouble reporting/resolution for residential and business customers.

Operations

The Operations Division ensures that the telecommunications infrastructure enables BC TELECOM to meet its customers' communications needs. The network infrastructure includes central office switching equipment located in nearly every major community throughout British Columbia, inter-connected by transmission equipment working on copper, fibre optic cable and microwave radio systems. Using this network infrastructure, telecommunications services are provided throughout the province and, through interconnecting arrangements, its system is linked with the world's major telephone systems.

The Operations Division includes the following groups:

- *BC TEL Field Services* provides installation and repair services helping customers throughout the province stay connected to the network.
- *Carrier Services Group* provides sales and service to Canadian long-distance carriers and resellers, independent telephone companies, personal communications service suppliers, rebillers, competitive access providers, and to U.S. and other foreign carriers.
- *Network Provisioning* designs and builds telecommunications facilities throughout the province.
- *Network Operations* operates and maintains the local central offices, toll switches, the analogue and digital multiplexers and radio systems, as well as the access network throughout the province. It provides network surveillance, network support and administration, technical support, specialized maintenance engineering, broadcast engineering, and network services implementation and testing.
- *Network Planning and Standards* is responsible for planning and supporting BC TEL's network infrastructure, including access, switching, transport and support systems as well as providing standards for network configuration and maintenance.
- *BC TEL Mobility Cellular Inc.* provides a full spectrum of wireless products and services including the most extensive cellular coverage and the largest digital personal communications services (PCS) footprint and together with BC Mobile Ltd., the largest paging network in the province. It is affiliated nationally with Mobility Canada and internationally with Mobilcomm.
- *Canadian Telephones & Supplies Ltd.* (CT&S) provides network switching installation.
- *BC TEL Supply* acquires, warehouses and delivers products and other related services for BC TELECOM, manages building maintenance and real estate acquisition and disposal, and manages the vehicle fleet.
- *BC TEL Systems Support Inc.* (SSI), is responsible for the maintenance of customer-owned systems and equipment. It provides after-sales service for voice, data and electrical systems; test equipment calibration and repair; and sales and service for a range of uninterruptible power supply solutions.

Strategic Alliances

Stentor Alliances

BC TEL is a member of three alliances of Canada's major telephone companies: Stentor Canadian Network Management (formerly Telecom Canada), Stentor Telecom Policy Inc. and Stentor Resource Centre Inc.

Stentor Canadian Network Management ("Stentor"), a working association of nine major Canadian telephone companies and Telesat Canada, manages and monitors Canada's interprovincial telecommunications networks and its North American and overseas interconnections through its member companies and with its two associated regional telephone operating companies. Integrated planning with other telephone companies in Canada and the United States, and with Teleglobe, enables BC TEL to provide its customers with

telecommunications services throughout Canada, the United States and other parts of the world. This network provides a full range of coast-to-coast telecommunications services with a wide variety of transmission facilities including coast-to-coast fibre optic cable, microwave radio relay systems and satellite channels.

In 1996, a new revenue settlement arrangement for long distance services, the Stentor Settlement Arrangement (the "Settlement Agreement"), was negotiated by the members of Stentor to replace the existing arrangement for sharing of domestic long distance revenues. The term of the Settlement Agreement is three years commencing January 1, 1997. Under the Settlement Agreement, as with the previous plan, competitive toll services and competitive network services are settled separately. The Settlement Agreement provides for a new settlement process for the competitive toll category, while revenues for competitive network services continued to be settled in accordance with the previous plan until a new arrangement was implemented on January 1, 1998. The Settlement Agreement is designed to emphasize the reduction of costs and the generation of profitable revenues. As a result of the terms of the Settlement Agreement, revenues of BC TEL are anticipated to increase over a period of time.

The members of Stentor are party to agreements with American Telephone and Telegraph Company ("AT&T"), MCI International Inc., Sprint Communications Company, Teleglobe and others that provide for the sharing of revenues from interconnecting telecommunication services. BC TEL's share of revenues flowing from such agreements is determined by the Settlement Plan.

Stentor Telecom Policy Inc. acts as a government relations advisory and advocacy arm for its shareholder companies, that consist of the major Canadian telephone companies and their cellular affiliates.

Stentor Resource Centre Inc. ("SRCI"), that commenced operations on January 1, 1993 at centres located across Canada, consolidates some of its members' research and development and marketing activities. A new management model for SRCI became effective January 1, 1997 in order to facilitate and simplify the process of making decisions for the alliance. Under this model, BC TEL, Telus Limited and Bell Canada have taken the leadership role in making decisions on lines of business strategy, with representatives from these three companies comprising the restructured SRCI board and the three companies holding all of the voting shares. All other telecommunications companies within SRCI remain non-voting shareholders, involved in the implementation of SRCI products. SRCI recovers its operating costs principally from its voting shareholders, with some costs attributable to its non-voting shareholders.

In 1992, the members of Stentor and MCI Communications Corporation ("MCI") formed a strategic alliance for the purpose of developing and delivering a unique portfolio of seamless, advanced intelligent network services more rapidly to customers in Canada and the United States. Under the terms of the agreement, the members of Stentor have gained access to MCI's intelligent network platform. This platform permits advanced network services that include virtual private network services. This type of system allows multi-location corporate customers to have a private network operating over the public switched network and enhances BC TEL's ability to compete in the long distance market. Under the terms of a revised agreement signed in 1995, the members of Stentor have access to MCI's Interexchange services platforms and have become the exclusive distributor of CONCERT''s global communications products and services in Canada. Access to these products and services enhances the ability of BC TEL to compete in the long distance market.

MediaLinx Interactive Inc. is funded by a number of Stentor alliance partners, including SSI. Its mandate is to develop interactive multimedia services to meet the growing information needs of Canadians. These services will be developed through partnerships in a wide range of areas and delivered through a variety of media, beginning with the Internet. Sympatico©, a user-friendly dial-up consumer Internet service, was available from coast-to-coast by the end of 1996.

In May, 1998, BC TELECOM sold to BCE Inc. the 12% ownership interest in Alouette Telecommunications Inc. ("Alouette") held by CT&S. Alouette was formed by CT&S, other Canadian telecommunications carriers and Spar Aerospace Limited. Alouette owns all of the issued and outstanding shares of Telesat Canada ("Telesat"), that operates a domestic satellite communication system. This sale does not alter any ongoing contractual relationships between BC TEL and Telesat relating to the use of Telesat's satellite communications system.

BC TEL, through CT&S, holds approximately 3% of the shares of Vistar Telecommunications Inc., a company formed by CT&S, other Canadian telecommunications carriers and related companies, and Spar Aerospace Limited, to develop and market wireless satellite and terrestrial software and hardware products and systems.

Agreement between Stentor and Teleglobe

On February 5, 1998, BC TEL and the other Stentor telephone companies announced that they had reached agreement in principle with Teleglobe Canada Inc. ("Teleglobe") on the principal terms of new arrangements for the interconnection of their respective networks for the supply of telecommunications services. These new arrangements will be addressed in new or revised agreements, which are as follows:

The existing interconnection agreement, dated December 1, 1993, between Stentor and Teleglobe for the supply of international services will be superseded by a new interconnection agreement which is based on competitive pricing conditions. Provided such conditions are met, this new agreement will govern the delivery of declining proportions of Stentor's international traffic over Teleglobe's switched network for the years 1998 through 2000. Stentor and Teleglobe have also renegotiated the terms of Stentor's agreement to supply fibre ring facilities to Teleglobe, which covers a seven-year term ending in 2005.

Thirdly, the companies have agreed to the terms of a new agreement, ending in 2002, for the marketing of Canada Direct™ service (Canada Direct is a trade-mark of Teleglobe Canada Inc.).

These new arrangements, which are subject to regulatory approval, were scheduled to be implemented by March 31, 1998. As negotiations have not been completed, implementation will take place at a later date. This new regime will establish a market-oriented relationship for the supply of services in the international telecommunications market, which is to become competitive with the removal of Teleglobe's monopoly status as of October 1, 1998.

Mobility Personacom Canada Ltd. ("Mobility Canada")

BC TEL Mobility Cellular together with 11 wireless affiliates of Canadian telephone companies are shareholders of Mobility Canada. The shareholders forming Mobility Canada represent approximately 55% of the total Canadian cellular market. Mobility Canada's objectives are to accelerate the introduction of new products and nationally branded services and to facilitate joint research and business planning. The Department of Communications awarded licenses for digital personal communications systems to Mobility Canada, and to three other companies.

Pacific Place Communications Ltd.

SSI has a strategic alliance with Concord Pacific Developments Ltd. to market advanced fibre optic communication, security, environmental control and entertainment services to residents and businesses at Concord Pacific Place. The development, located on the former Expo '86 site, is North America's first fully functional fibre optic community. When fully completed, Concord Pacific Place will feature 50 acres of parks, community centre, schools and more than 8,500 residences.

RESEARCH AND DEVELOPMENT

In 1996 and 1997, expenses for research and development of the BC TELECOM group before deduction of tax incentives amounted to $9.0 million and $1.2 million, substantially all of which was incurred through SRCI.

EMPLOYEE RELATIONS

As at this date, BC TELECOM had no employees and therefore contracts with BC TEL and other subsidiaries for its services. As of December 31, 1997, the BC TELECOM group employed 12,246 regular full time employees. Of these, 9,102 were represented by the Telecommunications Workers Union ("TWU"). The collective agreement between BC TEL and certain affiliates and the TWU expires on December 31, 1998.

PROPERTY

Property of BC TEL

The principal property of BC TEL consists of land, buildings, plant and equipment (central office equipment; cable, lightguide, and radio transmission equipment; business and residential communication equipment; outside plant aerial and underground structures, cables and lightguide systems; vehicles; computer equipment; office furniture and miscellaneous equipment) that are widely distributed throughout British Columbia.

Most of the major buildings used in telecommunications operations are constructed on freehold land owned by BC TEL. A small number of buildings are constructed on leasehold land and the majority of the relay stations for BC TEL's public service radiotelephone network located in remote areas of British Columbia are situated on Crown lands held under licences from the Province of British Columbia for varying terms. The telephone lines are constructed over or under streets or highways pursuant to statutory powers, on rights-of-way granted by the owners of privately owned land or by the Crown, or on freehold land owned by BC TEL. The real and personal property of BC TEL is subject to a fixed and specific first mortgage, pledge and charge and a floating charge contained in a Deed of Trust and Mortgage dated as of March 1, 1946 between BC TEL and Montreal Trust Company, as trustee, securing the First Mortgage Bonds.

BC TEL monitors its operations to ensure their compliance with applicable environmental requirements and standards and implements preventive and remedial action as required. BC TEL's business of telecommunications services does not generate significant waste products that would be considered hazardous. For these reasons remedial action has not been significant to the ongoing operations and expenditures of BC TEL.

Other Property

BC TEL Properties Inc. owns real property that is leased to certain other subsidiaries of BC TELECOM for head office purposes. The switching equipment for BC TEL Mobility Cellular's network is located on lands leased by BC TEL Mobility Cellular from BC TEL or third parties. The operations of other subsidiaries are located in leased premises.

REGULATION

Telecommunications Act

On October 25, 1993, the federal government proclaimed in force the *Telecommunications Act* (the "Act"). The Act provides that Canadian telecommunications carriers, as defined therein, including Crown corporations, are under the regulatory jurisdiction of the CRTC. Resellers of telecommunications services, however, are not subject to CRTC regulation.

The Act contains a statement of the federal government's telecommunications policy objectives as well as provisions that give the federal government the power to issue directions to the CRTC on broad policy matters. In addition, it provides the CRTC with the power to forbear or refrain from regulating in circumstances where there is sufficient competition to ensure that rates are just and reasonable and to prevent unduly discriminatory practices; the authority to protect customers against possible telecommunications abuse (such as offensive telephone and fax solicitations); and the power to determine the method of regulation to be imposed.

The Act also gives legislative effect to the federal government's policy, announced July 22, 1987, that facilities-based telecommunications common carriers must generally, be 80% owned and controlled by Canadians in order to be eligible to operate in Canada. It was recognized that certain carriers such as BC TEL that do not meet this requirement, but have operated legally in Canada for many years before announcement of the policy, would be grandfathered. The Act provides basic rules regarding Canadian ownership and control and contemplates regulations to establish the details.

The Act allows BC TEL, as well as any other members of the BC TELECOM group that operate as telecommunications common carriers, such as BC TEL Mobility Cellular, to maintain their grandfathered status under the Act, provided they meet certain prescribed criteria regarding their operating territory and their

ownership and control. With respect to operating territory, they will be limited to operating within the Province of British Columbia or within such greater territory as the federal minister responsible for telecommunications may specify.

On October 25, 1994, the Canadian Telecommunications Common Carrier Ownership and Control Regulations (the "Regulations") were adopted under section 22 of the Act. The Regulations define "Canadian" as including a corporation ("qualified corporation") where Canadians own not less than 66⅔% of the voting shares and that is not otherwise controlled by non-Canadians. The Regulations contain rules recognizing the grandfathered status of BC TELECOM and its Canadian carrier subsidiaries so long as they continue to meet the relevant criteria for ownership and control prescribed by the Regulations. The effect of the Regulations for BC TELECOM is that, so far as its Canadian carrier subsidiaries, such as BC TEL and BC TEL Mobility Cellular are concerned, BC TELECOM will continue to be grandfathered, so long as the percentage of the common shares of BC TELECOM owned by Canadians has not decreased, for a period of more than one year, by more than 5% from the percentage owned by Canadians at June 22, 1987, and so long as at least 80% of its directors are Canadians. The Regulations provide certain powers to a corporation, such as BC TELECOM, to monitor and control the level of foreign ownership of its voting shares to maintain its status. The Regulations give BC TELECOM the power to elicit information from its holders of voting shares, as to their identity and whether they are Canadian. In addition, BC TELECOM has the power under the Regulations to refuse to register a transfer of its voting shares to a non-Canadian, to force a non-Canadian to sell its voting shares and to suspend the voting rights attached to that person's shares, if that person's holdings would jeopardize BC TELECOM's grandfathered status. These powers include the ability of BC TELECOM to sell any non-Canadian's voting shares on that person's behalf or to redeem such shares. To the best of BC TELECOM's knowledge, the level of non-Canadian ownership of BC TELECOM's common shares was 50.4% as at 1987 and approximately 52.4% as at December 31, 1997. BC TELECOM monitors the level of non-Canadian ownership of its common shares and annually informs the CRTC with respect thereto.

Regulatory Framework

In Decision 94-19 (September 16, 1994), the CRTC set out a new regulatory framework for BC TEL and other telephone companies, calling for a transition from traditional earnings rate-of-return regulation to a split rate base regime (beginning 1995) and eventually to price caps (beginning 1998).

In accordance with Decision 94-19, BC TEL's business has, since January 1, 1995, been split for regulatory purposes into two segments: Utility and Competitive. The Utility business segment consists principally of basic local exchange services and various access services. Under the split rate base regime established by Decision 95-21 (October 31, 1995), Utility segment services were subject not only to detailed price regulation but also to earnings regulation (an ROE range of 10.25% to 12.25% with a targeted ROE of 11.25%). As a result of Decision 97-9 (May 1, 1997), the Utility segment is now subject to a price cap regulatory regime, with a Price Cap Index (PCI) consisting of

- the Gross Domestic Product Price Index (GDP-PI) as the inflation measure
- an industry-wide (rather than company-specific) productivity offset of 4.5%, and
- exogenous factors limited to legal, judicial or administrative actions beyond the telephone companies' control.

The PCI applies to a single basket of Utility segment services; that single basket of capped services is further divided into three sub-baskets:

- basic residential local services
- single and multi-line local business services
- other Utility segment services; services such as optional local services that have traditionally been priced to maximize contribution are not subject to price caps, nor are network services required by local and toll competitors.

The price cap plan does not have an earnings sharing overlay nor does it have a quality of service factor (Q-factor). The plan will be subject to review after four years.

BC TEL's Competitive business segment consists principally of long distance services, private line and data services, and terminal equipment products. This segment has not been subject to earnings regulation since January 1, 1995. However, under the continued price regulation specified in Decision 94-19, long distance and competitive network services were made subject to an imputation test requiring their prices to be set at levels which recover causal costs and explicit contribution, start-up cost recovery and bottleneck service charges. Most of the services in the Competitive segment have since Decision 94-19 been granted differing degrees of regulatory forbearance (see "Competition").

To reflect the new regulatory framework and the increasingly competitive environment, the CRTC has also reviewed its quality of service regulation of BC TEL and other telephone companies. In this regard, Decision 97-16 (July 24, 1997) concluded that market forces will not be sufficient to ensure that quality of service with respect to essential Utility segment services and bottleneck facilities will be maintained under a price cap regime. Accordingly, the CRTC ruled that the existing monitoring regime (quarterly reporting of performance on a number of service indicators) should continue, with the following modifications: separate reporting of rural versus urban service indicators in the areas of Provisioning and Repair; elimination of service interfaces covering Long Distance Service, Operator Services, and Billing; addition of new service indicators to monitor the provisioning of bottleneck facilities to competitors. Final standards will be established in the course of 1998 for implementation on January 1, 1999.

In December 1997, the CRTC issued Public Notice 97-40 to review the continued appropriateness of the telephone companies' Terms of Service within the context of their provision of services and facilities to alternate providers of long distance services (APLDS) and to competitive local exchange carriers (CLECs). In particular, the proceeding will address whether in the context of dealings with APLDS and CLECs, there should be changes to existing telephone company provisions regarding limitation of liability, refunds for service problems, termination of service, payment time limits and customer deposits. The PN 97-40 process is scheduled to close in May 1998.

The regulatory process is to be streamlined along the following lines:

- Tariff filings for services that have historically been priced to maximize contribution will generally be treated on an ex parte basis. Furthermore, de-averaging of rates for these services will be permitted.
- Generally, subject to imputation test requirements, tariff applications for changes to rates for capped services that meet the applicable price cap constraints will be disposed of without waiting for comments from intervenors. However, tariff applications to de-average rates for capped services will not be disposed of on the same basis.

On March 24, 1998, the CRTC issued Decision 98-4, whereby it removed the joint marketing restrictions previously with respect to cellular services imposed on BC TEL and other SOCs. Decision 98-4 also granted BC TEL and other SOCs the freedom to bundle their tariffed telecommunications services with

(a) the services of an affiliated company, or

(b) the services of a non-affiliated company, or

(c) non-telecommunications services offered in-house (e.g., cable TV)

subject to essentially the same bundling rules that currently apply to bundling involving only telephone company services (viz., the filing of an imputation test, provision of bottleneck components on an unbundled stand-alone basis, and availability of the bundled offering for resale and sharing). Any service element acquired from an affiliate or non-affiliated company and included in a bundled offering is to be costed at the acquisition costs incurred by the telephone company with respect to that service element. The resale requirement will not apply to bundles that involve non-telecommunications services.

Decision 98-4 also initiated two new processes: one to consider the CRTC's preliminary view that it is appropriate to remove the restriction against the bundling of terminal equipment with all network service elements and not just long distance and private line and data services, and the other to consider whether the

framework established in Decision 94-19 for customer-specific arrangements (CSAs) involving bundling of tariffed telephone company services should be extended to CSAs that involve (a) bundling of tariffed services with forborne services and/or (b) bundling of tariffed services with services of an affiliate or non-affiliate or with non-telecommunications services provided in-house. Both processes are to close in the end of June, 1998.

Rates

A proceeding was conducted under Public Notice 97-11 to address price cap going-in rates and other follow-up matters to Decision 97-9. As a result of Decision 97-18 (December 18, 1997), Decision 98-2 (March 5, 1998) and Order 98-463 (May 12, 1998), BC TEL's going-in residence rates at the start of price caps on January 1, 1998 were granted an average increase of $3.20. Decision 98-2 also included the following determinations: BC TEL's 1998 toll contribution rate was set at $0.0195 per minute per end and its contribution surcharge on wireless service providers at $24.14 per circuit; 11.0% was set as the target ROE for the Utility segment of all SOCs (applied against an average common equity base limited to a maximum of 55%) to determine BC TEL's going-in rates; going-in rate determination excluded start-up costs for local competition and for LNP implementation, whose recovery will be addressed in another proceeding, the CRTC accepted BC TEL's proposed changes to the service lives of certain assets, and ruled that any depreciation reserve deficiency as of January 1, 1998 should be amortized over the average remaining service life of the asset concerned. In turn, Order 98-463 included the following rulings on BC TEL's first filing of rate revisions in accordance with price cap parameters: effective May 19, 1998, an across-the-board increase of $0.20 to BC TEL's residential rates (except for lines still served by step-by-step switches), and average decreases of −4% to single-line business rates, −7% to Small Business Multi-line rates, and −19% to Standard Multi-line business rates.

COMPETITION

BC TELECOM competes or expects to compete in essentially all of its products and services including long distance services, wireless services, local service, private lines and data services, communications systems and a various other services. In addition the Federal Government has issued a Convergence Policy Statement that set out the principles for competition between cable and telephone companies in offering services governed by the *Broadcasting Act*.

Long Distance Telephone Services

BC TEL estimates that in 1997 it had 68% of the business long distance market share (in revenue) and 75% of the residence long distance market share. This amounts to a combined long distance market share of 72%.

In March 1990, the CRTC permitted increased competition in the long distance market by liberalizing the rules governing the resale and sharing of private line services provided by BC TEL, other telephone companies and the predecessor to AT&T Canada. As part of the decision, the CRTC directed that resellers and sharing groups make contribution payments to the telephone companies to help support local rates. Effective December 1990, the CRTC permitted resellers and other customers to access the overseas network of Teleglobe (Canada's international telecommunications carrier to countries other than the United States) directly through private lines, rather than through the facilities of the members of Stentor. In addition, in December 1991, the CRTC liberalized rules pertaining to the resale and sharing of overseas private line services thereby permitting resellers to offer overseas voice services to foreign countries that permit similar resale.

On June 12, 1992, the CRTC issued Decision 92-12 which in effect opened the long distance services market to full competition in the operating territories of Bell Canada, BC TEL and the Atlantic telephone companies. That decision also established a contribution mechanism that has undergone a number of changes:

- As a result of Decision 95-23, competitors began, as of June 1, 1996 paying contribution on their trunk-side traffic on an actual per-minute basis rather than based on the number of interconnecting trunks. This constituted the first attempt to promote greater equity among participants since it removed the significant discount available to competitors by carrying more traffic per trunk than had been assumed in the CRTC's contribution calculation.

- In July 1996, Stentor filed an application asking the CRTC to eliminate, effective January 1, 1997, the explicit discounts then available to competitors; among them: the discount on trunk-side connections (slated to be 15% from January to June in 1997 and 10% for the one-year period from July 1997), the discount on line-side connections (slated to be 15% from the trunk-side rate in 1997, with no specified phase-out), and the stimulation factor (effectively exempting 6.78% of the traffic of APLDS from contribution, with no specified phase-out). In December 1996, the CRTC issued Order 96-1607 denying the request for a 1997 elimination of the discounts at issue. However, the CRTC did rule in favour of eliminating the discount for line-side connections and the traffic stimulation factor at the same time as the discount for trunk-side connections is phased out as scheduled, by July 1, 1998.
- Also in December 1996, the CRTC issued Decision 96-12 directing that line-side contribution can be assessed on a per-minute basis beginning July 1, 1997, thereby eliminating another source of significant implicit discounts for competitors.
- On May 1, 1997, the CRTC issued Order 97-590, ruling that effective January 1, 1998, contribution should also apply to the wireline-to-wireless and the wireless-to-wireline inter-exchange traffic of wireless service providers, APLDS, internal administrative inter-exchange traffic carried on line-side connections, and inter-exchange data traffic carried on line-side connections. The CRTC declined to extend the contribution obligation to paging or to Internet traffic under current circumstances.
- In December 1997, the CRTC issued Order 97-1903 with respect to a June 9, 1997 application filed by Stentor calling for significant reforms to be made to the per-circuit contribution mechanism applicable to APLDS' international circuits. The CRTC agreed with Stentor that there is substantial doubt as to the correctness of the existing assumption of a loading of 7,000 minutes per circuit for determining the per-circuit contribution on international circuits; in the CRTC's view, this results in significant implicit discounts that give competitors an undue competitive advantage and results in local subscribers of the telephone companies unduly subsidizing the resulting loss of contribution. Accordingly, the CRTC ruled that, effective July 1, 1998, the monthly per-circuit contribution rates applicable to the international circuits of APLDS is to be increased to reflect carriage of 14,000 minutes per circuit per month. APLDS will also be required to file full disclosure concerning the number of their international circuits, supported by a sworn affidavit by a senior company officer, and to provide such reports to the relevant Local Exchange Carrier.
- In February 1998, it issued Public Notice 98-4 to examine alternative mechanisms for the recovery of contribution on APLDS' traffic that either originates or terminates on a direct access line (DAL). This proceeding reflects the CRTC's recognition that the 2% surcharge established in Decision 92-12 for DAL does not adequately account for the actual amount of APLDS traffic on DAL's. The proceeding is scheduled to conclude in July 1998.

However, in the course of the PN 97-11 proceeding (see "Regulatory Framework"), the CRTC came to the preliminary view that the originating/terminating de-averaging mechanism proposed in Order 97-590 is likely to prove unworkable and called for comments from interested parties. The CRTC subsequently concluded that its directive for a de-averaging of contribution by originating and terminating traffic should be rescinded.

On December 18, 1997, the CRTC issued Decision 97-19, concluding that it is appropriate at this time (upon the filing of tariff withdrawals within 90 days) to grant regulatory forbearance to the SOCs with respect to their provision of toll (basic toll and discount toll) and toll-free (800/888) services, in terms of most of the requirements of the Act. In particular, the SOCs are no longer required to file tariffs and rates for their toll and toll-free services for CRTC approval and are no longer subject to any imputation test requirement on these services. The SOCs' limitations on liability in relation to these forborne services will no longer require CRTC approval. However, because of concerns that revenues from basic toll services could be used to subsidize below-cost pricing in other segments of the toll and toll-free markets to the detriment of workable competition, the CRTC will continue to exercise its powers to impose certain conditions of service; in this regard, an upward pricing constraint and a prohibition against route de-averaging of prices has been imposed on each of the schedules in basic toll services.

The CRTC will also continue to exercise its powers to prevent unjust discrimination with respect to all aspects of basic toll services. With respect to discount toll and toll-free services, the CRTC will require the SOCs to provide access to their networks and to allow the resale and sharing of their toll and toll-free services, as a means to prevent unjust discrimination. Finally, the CRTC considers that the SOCs should continue to be subject to CRTC review and approval of their inter-carrier agreements and arrangements that relate to their operations as a national entity and the settlement of jointly earned revenues, to ensure, among other things, that such settlement arrangements are equitable.

The CRTC also relieved the SOCs of the restriction against the bundling of terminal equipment with long distance services. Finally, the CRTC left the Affiliate Rule in place, stating that the record of the proceeding is not adequate to determine whether the Rule should be discontinued in a forborne environment. (The Affiliate Rule restricts affiliates of the SOCs from providing switched toll services and from engaging in joint-use resale of the SOCs' inter-exchange private line services.) On March 16, 1998, Stentor filed an application calling on the CRTC to eliminate the Affiliate Rule, on the basis that if, as the CRTC has determined, the SOCs do not have the ability to successfully engage in anti-competitive pricing directly in the long distance market, then they would similarly be unable to engage in such activity by proxy through an affiliate.

On May 5, 1997, the CRTC issued Decision 97-10 removing the restriction on the participation of domestic carriers in international simple resale i.e. resale of Teleglobe's international private lines. The CRTC, however, retained the prohibition against third-country routing or switched hubbing with respect to all service providers.

Decision 97-10 subsequently became the subject of a number of appeals before the Federal Court of Appeal. The CRTC initiated its own review and on December 19, 1997 reversed itself by removing the switched hubbing restriction effective May 5, 1997, on the basis that doing so would better contribute to the attainment of the policy objectives with respect to rendering of reliable and affordable telecommunications for Canadians, enhancing the efficiency and competitiveness of Canadian telecommunications, and generally fostering increased reliance on market forces. In February 1998, Teleglobe filed a petition asking the Governor in Council to set aside the CRTC's order eliminating the switched hubbing prohibition. Teleglobe argued that the CRTC's ruling violates the World Trade Organization (WTO) agreement by in effect liberalizing routing rules for traffic destined to certain WTO members, while maintaining restrictions on routing to other WTO members, most notably the U.S. Teleglobe also submitted that the ruling effectively deprives it of the full transition period to adjust to a fully competitive environment, from the October 1, 1998 termination of its monopoly status until the government's committed date of December 31, 1999 for the removal of all restrictions on international services.

In October 1997, the CRTC initiated a proceeding under Public Notice 97-34 calling for proposals and comments on the regulatory regime that should apply to the provision of international telecommunications services, effective October 1, 1998, when Teleglobe's monopoly terminates. The proceeding, that closed in March 1998, addressed the following issues: the appropriate licensing regime for international service providers, the definition of Canadian transmission facilities, the nature of any obligations to be imposed on licensees to interconnect with domestic carriers on a non-discriminatory basis, requirements with respect to traffic exchange and settlement agreements, the need Teleglobe's services and facilities to continue to be available for resale and sharing, restrictions on the routing of traffic originating and/or terminating in Canada, the contribution mechanism in a competitive environment, and possible regulatory forbearance for Teleglobe.

Wireless Services

BC TEL Mobility Cellular has been providing cellular telecommunication services in British Columbia in competition with Rogers Cantel Mobile Communications Ltd. BC TEL Mobility Cellular had a 60% share of the cellular market in British Columbia as of December 31, 1997.

In April 1996, Industry Canada announced the conditions under that it would authorize the provision of PCS in the 2 GHz range by BC TEL Mobility Cellular. Those conditions include, among others: substantial implementation of the PCS system within five years with a "reasonable level of service in all regions of Canada" within two years of authorization, the investment of an average of at least 2% of PCS revenues over five years on eligible PCS-related research and development activities, and safeguards to ensure that BC TEL's PCS affiliate does not derive any undue advantages as a result of having a cellular affiliate. BC TEL Mobility Cellular

anticipates that its provision of PCS will be in competition with up to four other companies and with the provision of cellular telecommunication services.

Initially the provision of cellular telecommunication service was regulated by the CRTC. In August 1994, the CRTC issued Decision 94-15 granting forbearance for wireless cellular services, except where such services are provided directly by a telephone company. Where the cellular service provider was a telephone company affiliate, the forbearance was subject to certain safeguards established in Decision 87-13 to ensure that these cellular activities be conducted at arm's length from the telephone company's regulated activities (no joint marketing, among other things) and that there should be no cross-subsidization from monopoly revenues.

In December 1996, the CRTC issued Decision 96-14 setting out its re-considered determinations concerning the proper regulatory framework for mobile wireless services. It determined that based on service attributes, mobile wireless telecommunications services can be assigned to two categories for regulatory purposes: (1) mobile voice wireless telecommunications services that are connected to the PSTN, or simply "public switched mobile voice services," that would include cellular services, personal communications services (PCS), enhanced specialized mobile radio (ESMR) and satellite-based mobile services, and (2) all other mobile wireless telecommunications services (e.g., paging) including data, or simply "other wireless services." With respect to public switched mobile voice services, the CRTC re-affirmed its previous determination (Decision 94-15) that the market is sufficiently competitive to protect the interests of users. Accordingly, the CRTC maintained its earlier decision to relieve public switched mobile voice services (except when provided in-house by a telephone company) from most of the provisions of the Act. The only regulatory oversight that will remain relates to protecting the confidentiality of customer information, ensuring open access to networks, and enforcing the joint marketing restrictions established in Decision 87-13 with respect to telephone companies and their cellular affiliates. With respect to other wireless services, the CRTC reaffirmed its earlier decision to refrain unconditionally from exercising its regulatory powers so long as such services are not provided in-house by a telephone company. The CRTC, however, reversed itself on its previous determination to issue an exemption order for these services, given that providers of such other wireless services will continue to be subject to the Canadian ownership and control provisions of the Act and also to licensing requirements under the *Radiocommunications Act*.

On December 3, 1997, the CRTC issued Order 97-1797 in that it again declined to order cellular (and PCS) service providers to make their services available for unrestricted resale and sharing, thereby retaining the current regime (established in Decision 91-8) allowing wireless service providers to selectively permit resale/sharing of their services. The CRTC ruled that in an increasingly competitive market characterized by new facilities-based entry, the public interest is best served by allowing individual wireless service providers to decide whether or not to permit resale/sharing of their services, on the basis of their particular investment and business requirements.

As a result of Decision 98-4, BC TEL is no longer subject to the following constraints:

(1) a prohibition on the joint marketing and/or advertising of wireline with wireless services;

(2) a requirement to provide neutral referrals when telephone company customers inquire about wireless services;

(3) a separate prohibition on the exchange of confidential customer information (such information is still protected under BC TEL's Terms of Service); and

(4) an explicit prohibition on the cross-subsidization of cellular services by wireline services (given that there are other mechanisms in place to safeguard against such cross-subsidization).

As a result of Order 97-590 (see "Long Distance Telephone Services") issued on May 1, 1997, wireless service providers (WSPs) were required, as of January 1, 1998, to pay contribution on the wireline-to-wireless and wireless-to-wireline interexchange traffic they carry; the contribution levy is in the form of a surcharge on the interconnecting circuits used by WSPs to access the PSTN. In February 1998, an appeal was filed by a wireless network competitor objecting to the calculation of an average surcharge that would apply to all wireless service providers regardless of their traffic mix; that provider claimed an average surcharge is unfair to it because it generally carries less long distance traffic than the Mobility Companies. For 1998, the per-circuit

surcharge on the interconnecting circuits of WSPs in BC TEL territory has been set at $24.14. In conjunction with making WSPs liable for contribution, Order 97-590 also ruled that WSPs should be accorded the opportunity to offer similar services to those that other contribution-paying service providers can offer; accordingly, the restrictions in Decision 84-10 against WSP carriage of long distance traffic between fixed landline stations has been removed, also as of January 1, 1998.

Local Services

In Decision 94-19 (See "Regulatory Framework"), the CRTC approved local market competition in principle and directed the development of co-location and service unbundling tariffs by the telephone companies. The CRTC also stated that it would be predisposed to approve applications to interconnect local systems offering local switched voice services, even prior to the availability of telephone company tariffs on unbundling and co-location. The CRTC has specified the general framework for local competition in Decision 97-8. (See "Regulatory Framework"). Separate proceedings are currently underway on unbundling, co-location and local number portability.

On May 1, 1997, the CRTC issued Decision 97-8 establishing the framework it considers appropriate for local exchange competition. Under that framework:

- Start-up costs associated with local competition should be borne by the specific carriers incurring the costs, rather than by all market participants. The CRTC indicated that it will be initiating a proceeding shortly to address the appropriate means for the incumbent local exchange carriers to recover the start-up costs they incur.
- Rather than making each local exchange carrier responsible for the delivery of its own originating traffic to other carriers, there will be equal sharing, among the local exchange carriers concerned, of the costs of interconnecting trunks and CCS7 (common signalling number 7) signalling links required for the exchange/interchange of traffic between their networks.
- Rather than requiring interconnection solely at the end-office switch level, all local exchange carriers should install tandeming software at designated gateway switches. Similarly, all local exchange carriers will be required to provide one point of interconnection in each numbering plan area in that they provide service.
- For traffic that is interchanged between and terminated within the same exchange, the bill-and-keep approach (wherein the originating carrier does not explicitly compensate the terminating carrier for call termination) is to be used. Where there is a demonstrated imbalance in the traffic between local exchange carriers, mutual compensation should be implemented and the rate should be capped at the rate approved for the incumbent local exchange carriers.
- The incumbent local exchange carriers will be required to unbundle essential facilities and follow mandated pricing principles for such facilities. An "essential" facility, function or service is defined as one that is monopoly-controlled, is required by a competitive local exchange carrier as an input to provide services, and cannot be duplicated economically or technically by a competitive local exchange carrier. An essential facility that incumbent local exchange carriers utilize on the basis of a number of different technology platforms must be made available on an unbundled basis with respect to each particular technology.
- There is no need at this time to require mandatory unbundling of competitive local exchange carrier facilities.
- Incumbent local exchange carrier rates for essential facilities should be based on Phase II costs plus a 25% mark-up.
- Since it is unlikely that competition will develop in all areas in the near term, the incumbent local exchange carriers' current obligation to serve will be maintained pending further investigation into approaches for serving high-cost areas that is more suited to a fully competitive environment.

- Toll contribution will remain the only explicit source of subsidy for residential local services. In the absence of full rate rebalancing (that is inappropriate because it could lead to significant increases in residential rates), a certain level of contribution should be maintained to ensure that rates in high-cost areas permit universality of access while minimizing distortion of the emerging competitive local exchange market. Toward that end, contribution rates will be frozen, as of January 1, 1998, for BC TEL.
- Contribution subsidies will be portable; that is, they are to be available to any local exchange carrier (and not just the incumbent local exchange carriers) that serves a subsidized subscriber.
- All competitive local exchange carriers will be required to provide equal access to all inter-exchange service providers, at terms and conditions equivalent to those that apply to the incumbent local exchange carriers. Competitive local exchange carriers must also file tariffs providing for WSP interconnection that are equivalent to terms and conditions in the incumbent local exchange carriers' tariffs for WSP interconnection. Incumbent local exchange carriers will be required to interconnect their inter-exchange networks with those of the competitive local exchange carriers.
- Given the competitive local exchange carriers' need for essential facilities, incumbent local exchange carriers pricing for end-user local services will be subject to an imputation test to prevent anti-competitive pricing. The local service imputation test will apply on a service-specific basis, by rate band. Competitive local exchange carriers need not be subject to any imputation test requirement for any of their services.
- Incumbent local exchange carriers will continue to be required to provide comprehensive directories (that include listings for competitive local exchange carrier subscribers) to their subscribers, while competitive local exchange carriers will be free to decide whether or not to provide directories to their subscribers, based on consumer demand.
- Unrestricted resale will be allowed with respect to incumbent local exchange carriers' unbundled components (other than subscriber listings). With respect to incumbent local exchange carriers' retail services, resale as currently allowed will continue to be available as a matter of course. In addition, the incumbent local exchange carriers are to modify their tariffs so as to allow the resale of their residential exchange services to provide residential services. However, the incumbent local exchange carriers will not be mandated to provide wholesale rates for the resale of their retail services.
- Competitive local exchange carriers will not be required to file tariffs with respect to their retail telecommunications service offerings but will be subject to regulation with respect to consumer safeguards and unjust discrimination. With respect to services provided to other local exchange carriers (interconnection, call termination), competitive local exchange carriers will be required to file tariffs as well as underlying agreements for CRTC approval.

On May 1, 1997, the CRTC also issued a ruling (Order 97-591) regarding responsibility for the costs of implementing local number portability (LNP). The CRTC ruled that each carrier should be responsible for the recovery of its own costs incurred in the implementation of LNP. As a result, BC TEL and other SOC's will bear the bulk of LNP costs, because of the large number of switches they have in their networks, and the range of technologies and vintages of their switches. The CRTC indicated that it will be initiating a proceeding to address the means by that the SOC's would be allowed to recover their LNP implementation costs.

On January 29, 1998, the CRTC (Order 98-60) adopted the recommendations of CRTC staff regarding the timing and rate of roll out of LNP in the free-calling areas of designated first-priority exchanges and Priority 2 exchanges. Pursuant to that schedule, BC TEL is to provide LNP by July 31, 1998 for Vancouver, August 31, 1998 for the Vancouver EAS, and February 28, 1999 for the Victoria EAS and Matsqui.

Private line and Data

Since 1981 BC TEL has faced competition in the provision of private line and data communications services. Alternative suppliers now include cable operators. The provision of all such services by BC TEL has until recently been fully regulated by the CRTC.

In response to a Stentor application of April 1995, the CRTC in February 1996 issued Order 96-130 granting partial forbearance for Datapac, Pospac, HyperStream, and future X.25 and frame relay services that

the SOC may offer, relieving them from most of the provisions of the Act including the requirement to file tariffs for CRTC approval. However, the SOC' provision of these services will continue to be subject to CRTC regulation with respect to the treatment of customer-confidential information, the prohibition against bypass of Canadian services and facilities, and the requirement to ensure non-discriminatory access to their networks and to resale and sharing of their packet data services.

In April 1996, Stentor on behalf of BC TEL and other SOC filed an application for regulatory forbearance with respect to their current and future electronic messaging and information (EMI) service offerings, specifically, their Intelligent Communication Network portfolio that provides electronic mail (Envoy 100), electronic data interchange (NET-EDI), electronic fax (ICN Enhanced Fax) and on-line electronic information services (NET-Database gateway). In Order 96-1392 issued in December 1996, the CRTC ruled that the Canadian EMI market is highly competitive and that the SOC' ability to control this market in any way is very limited. Satisfied that the interests of EMI users would be protected by the degree of competition in the market, the CRTC granted regulatory relief for the SOC' EMI services with respect to most of the provisions of the Act, including the requirement to file tariffs for CRTC approval. The CRTC, however, stated that it will continue to regulate the SOC' provision of EMI services with respect to the treatment of customer-confidential information, and ensure that there is no undue preference or unjust discrimination in terms of the opportunities for sharing and resale of their EMI services.

In September 1996, Stentor on behalf of BC TEL and other SOC filed an application for unconditional regulatory forbearance with respect to their inter-exchange private line (IXPL) services, i.e., such services as "High Capacity" (i.e., Megaroute™ and Megastream™, and High Capacity 45 services), Digital Data Systems services (i.e., Dataroute), IX voice grade ("IXVG", or Voice Grade Analogue, "VGA") services, and additional miscellaneous IXPL services (e.g., Multicom™, Datalink™, VideoRoute™). On December 18, 1997 the CRTC issued Decision 97-20, partially granting Stentor's Application. In particular, the CRTC concluded that forbearance is warranted for Stentor and BC TEL's provision of High Capacity and DDS services on 20 specific high-capacity routes, effective March 18, 1997, with respect to provisions in the Act relating to filing of tariffs, compliance with just and reasonable rates, unjust discrimination or preference, and limitations on liability. The CRTC, however, ruled that these services will continue to be subject to regulatory oversight with respect to customer confidential information, facilities bypass, and inter-carrier agreements. With respect to forbearance for other IXPL services/routes, the CRTC proposed to follow a route-specific approach, based on filing of evidence that one or more competitors are offering or providing the equivalent of at least DS-3 bandwidth on a private line basis to at least one customer, using terrestrial facilities from a company other than a Stentor or affiliated company. That approach was put forth for public comment and is awaiting the CRTC's final ruling. With respect to the IXVG service sector, the CRTC concluded that it is distinct from the High Capacity and DDS service sectors and requires continued regulation to protect the interests of customers, given the SOCs' reported aggregate 80% market share of that sector, the sector's relative stability in the face of competitive service alternatives, and the current extent of market supply of IXVG facilities. Decision 97-20 also ruled that BC TEL could now bundle terminal equipment with private line and data services.

Communications Systems

The CRTC in a decision of November 23, 1982 concluded that it was in the public interest that a liberalized terminal attachment policy be followed. This decision permitted the connection to BC TEL's facilities of customer-owned terminal equipment and determined the terms and conditions pursuant to that such connections should be allowed. BC TEL has experienced competition from a large number of companies in the provision of business and residence terminal equipment in its operating territory since the early 1980's and a loss of market share has occurred.

Decision 94-19 (see "Regulatory Framework") granted complete regulatory forbearance, effective January 1, 1995, to the telephone companies with respect to their sale, lease and maintenance of terminal equipment. In its forbearance ruling, the CRTC noted the range and number of competitors, the relatively high degree of supply elasticity and the absence of significant barriers to entry in the single-line terminal market as well as the market for key systems, private branch exchanges (PBXs) and data equipment. Any anti-competitive practices in the terminal equipment market on the part of the telephone companies will henceforth have to be addressed by the Director of Investigation and Research, Bureau of Competition Policy.

In Decisions 97-19 and 97-20, the CRTC relieved BC TEL and other SOCs of the restriction against the bundling of terminal equipment with long distance and competitive network service elements, subject only to the regulatory requirement that any toll and toll-free services included in such a bundle must be available for resale and sharing. However, in Decision 98-4 (see "Wireless Services"), the CRTC initiated a separate process to consider its "preliminary view that it is appropriate to remove the restriction against the bundling of terminal equipment with [all other] network service elements"; the process is scheduled to close at the end of June 1998.

Other Services

In September 1994, the CRTC approved the provisioning by other suppliers, in competition to BC TEL, of single-line inside wire (See "Rates").

On March 8, 1995, the CRTC issued Decision 95-3, directing the telephone companies to provide non-confidential non-residential listing information (as published in the Yellow Pages) and non-confidential residential listing information (as published in the White Pages) available to third parties under general tariffs. Under Public Notice 97-4, the CRTC is currently reviewing BC TEL's proposed rates and terms for such a directory file service.

In March 1997, the CRTC approved an application by Canada Payphone Corporation for permission to conduct a six-month technical trial in the Vancouver area of a total of 20 pay telephones in 14 different locations using either wireline or wireless connections. That technical trial concluded in October 1997. In July 1997, the CRTC initiated a proceeding under PN 97-26 to consider whether it is appropriate at this time to permit competition in the local payphone market, and if so, the nature of consumer safeguards that may be appropriate. The CRTC has indicated that it will be issuing its decision on this matter at approximately the second quarter 1998. The CRTC's policy to this point has been that competition will not be allowed in the local pay telephone market until mechanisms are in place to ensure that unregulated payphone service providers are subject to enforceable consumer safeguards relating to such matters as access to emergency service, access for persons with disabilities and proper disclosure of rates being charged.

Convergence

In August 1996, the Federal Government issued its Convergence Policy Statement, bringing to a close the process that was initiated in October 1994 by Order in Council P.C. 19941689 (setting out the Government's broad policy goals for the Information Highway). This process resulted in the CRTC's May 1995 report on convergence, the Information Highway Advisory Council's own recommendations in September 1995, and the Federal Government's May 1996 report on "Building the Information Society: Moving Canada into the 21st Century." The Convergence Policy Statement set out the principles of implementation that will "allow for fair and sustainable competition between cable and telephone companies" and create conditions for "expanded consumer choice and continued support for Canadian culture." In conjunction with that, the Federal Government also agreed in principle to exempt BC TELECOM and BC TEL from the foreign ownership provisions in the *Broadcasting Act* and associated regulations. As for the general policy framework for convergence, the Government stated that neither cable companies nor telephone companies should have a head start over the other in entering each other's market.

On April 8, 1997, the Federal Cabinet approved a direction under the *Broadcasting Act* (the "Direction") with respect to the foreign ownership requirements under that Act. The Direction permits a subsidiary of BC TELECOM or the telecommunications common carriers within the BC TELECOM group, such as BC TEL, to apply for broadcasting distribution licenses (i.e., for cable operations) within its operating territory. This permission is contingent on the BC TELECOM group abiding by certain conditions regarding the continued ownership of common shares of BC TELECOM by its current majority shareholder, composition of the board of directors of the broadcasting subsidiary and exclusive control by that board over programming decisions. BC TELECOM has agreed to establish a $10 million Innovation Fund dedicated to the creation and presentation of creative Canadian television and multimedia programming in British Columbia.

On May 8, 1997 Rogers Communication Inc. commenced an action in the Federal Court against The Attorney General of Canada and BC TELECOM alleging that the Direction was *ultra vires* the *Broadcasting Act*. In March 1998, the Federal Court ruled in favour of BC TELECOM and the Attorney-General of Canada.

In March 1997, the CRTC issued Public Notice CRTC 1997-25 setting out the new policy framework it intends to apply to all broadcasting distribution undertakings in Canada. Following the issuance of draft regulations and the conclusion of the attendant public process, the CRTC in December 1997 issued Public Notice CRTC 1997-150 setting out new broadcasting distribution regulations, effective January 1, 1998, applicable to all distributors of broadcasting services in Canada, be they cable, MDS (multipoint distribution systems), LMCS (local multipoint communications systems) or DTH (direct-to-home satellite systems).

Among the more significant aspects of the proposed new regulations:

- New terrestrial distributors (i.e., wireline and wireless, but not DTH), regardless of size, would be licensed and regulated generally in accordance with the class of license held by the incumbent cable distribution undertaking already serving the market and with whom it will compete.
- Existing distribution undertakings and new entrants will have the option of applying for a "regional license", i.e., a license to serve a territory consisting of more than one market area.
- All distribution undertakings, except Class 3 terrestrial distribution undertakings, will be required to contribute a minimum of 5% of their gross annual revenue derived from broadcasting activities toward "the creation and presentation of Canadian programming". Depending on class of license, a distribution undertaking may allocate some specified portion of that contribution to local expression initiatives.
- The subscriber fees of new distribution licensees will not be subject to CRTC regulation.
- The basic monthly fee of any incumbent Class 1 cable distribution undertaking would become deregulated once the undertaking provides documentary evidence that
    - the basic service package of an alternative distribution undertaking is available to 30% or more of the existing households in its service area; given the universal availability of licensed DTH services, August 31, 1997 will be deemed as the date on that the 30% availability criterion has been met for all rate-regulated cable licensees; and
    - the number of the incumbent's basic service subscribers has decreased by at least 5% since the entry of new distributors in its service area.
- Customer ownership of inside wire provides the best framework for ensuring that customers obtain the full benefits of competition in the broadcast distribution services market. Accordingly, incumbent cable operators are to offer to sell inside wire to their customers at a nominal charge, at the time such customers decide to terminate service personally or through an agent. In the case of single-unit dwellings, a flat rate of $5.00 has been specified as the maximum level of compensation that can be charged for inside wire. In the case of multiple-unit dwellings, further examination will be undertaken under the auspices of the CRTC Interconnection Steering Committee (CISC).
- Incumbent cable operators will not be mandated to make their cable services packages available as a matter of course for resale.

In its May 1995 Convergence Report to the Government, the CRTC stated that telephone company applications to enter the incumbent cable distributors' core business should not be entertained until rules are in place to ensure that there are no barriers to effective competition in the local telephone services market. That "no head start" rule was subsequently adopted by the Federal Government in its August 1996 Convergence Policy Statement. On May 1, 1997, the CRTC issued broadcasting Public Notice 1997-49 specifying January 1, 1998 as the date certain by that telephone companies will be allowed to begin offering broadcasting distribution services in competition with the incumbent cable operators. The CRTC based its determination on the fact that the framework for competition in local telephony is largely in place (see "Regulatory Framework"), except for terms and conditions for co-location, and that by January 1, 1998 any barriers to entry into that market will have been sufficiently addressed. Given the time required to process broadcasting distribution license applications, the CRTC stated that it would be reasonable to allow telephone companies to file applications for broadcasting distribution licenses in advance of January 1, 1998. The CRTC concluded that it would be appropriate to entertain such applications from telephone companies upon the release of the co-location decision, which occurred on June 16, 1997 (Decision 97-15).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain consolidated financial information regarding BC TELECOM for the years noted:

	Year Ended December 31				
	1993	1994	1995	1996	1997
	(dollars in millions except per share amounts)				
Selected Income Items					
Operating revenues (restated)	$2,145.8	$2,230.1	$2,324.6	$2,517.2	$2,754.6
Common share earnings	205.8	219.8	240.3	234.4	283.2
Selected Balance Sheet Items					
Total assets	4,114.5	4,377.0	4,588.2	4,763.7	4,792.3
Total capitalization	3,335.7	3,573.1	3,666.9	3,787.3	3,883.2
Short-term obligations	135.0	367.6	247.0	110.6	272.1
Long-term debt	1,335.1	1,264.4	1,308.4	1,441.5	1,250.1
Preference shares and preferred shares	138.4	70.6	70.1	69.7	69.7
Common share equity	1,723.7	1,869.2	2,036.3	2,159.4	2,283.6
Minority interest	3.9	1.7	5.4	6.1	7.7
Earnings per common share	1.81	1.88	2.00	1.90	2.29
Dividends declared per common share	1.19	1.23	1.27	1.31	1.35
Return on equity	12.4%	12.2%	12.2%	11.2%	12.8%
Interest coverage (times)	3.6	3.9	3.9	4.1	4.8
Ratio of debt to total capitalization	44%	46%	42%	41%	39%

	Three Months Ended							
	1997				1996			
	March	June	September	December	March	June	September	December
	(dollars in millions except per share amounts)							
Operating Revenues	$647.8	$687.6	$695.3	$723.9	$603.3	$621.1	$635.9	$656.9
Common Share Earnings	64.8	73.6	76.4	68.4	55.6	54.3	65.2	59.3
Earnings Per Share	.52	.60	.61	.56	.45	.44	.53	.48

Subsequent Financial Changes

On March 11, 1998 a change in accounting principles was announced in response to the competitiveness of the telecommunications industry and the new regulatory requirements that took effect on January 1 of this year.

This technical change is from regulated accounting principles (RAP) to generally accepted accounting principles (GAAP). The change will result in an after-tax, extraordinary charge to earnings of $531 million in the first quarter of 1998.

The accounting change is consistent with similar steps already taken by most Canadian and U.S. telecommunications companies. The resulting extraordinary charge will not affect the ability to pay dividends since it has no impact on the company's cash flow. On March 18, 1998, the Dominion Bond Rating Service confirmed that it considers that no rating action is warranted at this time.

Under RAP, certain assets were charged to income over a longer period of time than would have been the case in a competitive environment. This allowed regulated companies to recover their costs and investments while avoiding significant price fluctuations for customers.

With the introduction of local service competition and price cap regulation, it is the market — not the regulator — that determines the price our customers will pay for their services. Consequently, the recovery of costs incurred and investments made under the previous regulatory environment is now at greater risk.

Included in the extraordinary charge is an adjustment to assets that were recorded under RAP. The charge also includes a reduction in the net carrying value of capital assets resulting from an analysis of the estimated future cash flows that these assets will be expected to generate in the competitive environment.

The breakdown of the extraordinary, non-cash charge that has been recorded in the first quarter of BC TELECOM's 1998 earnings is as follows:

Regulatory assets	$ 83 million
Capital assets	$448 million
	$531 million

BC TEL is also reviewing its depreciation methods to determine the extent to which the remaining asset lives need to be shortened to reflect rapid market and technological changes in the industry. The impact of these accounting changes on earnings will vary depending upon the final determination of the effect of shortening the asset lives.

LEGAL PROCEEDINGS

On May 8, 1998 an action was commenced against BC TEL by certain holders of the First Mortgage Bonds, 11.35% Series AL (the "Bonds") which were redeemed by BC TEL on December 30, 1997. The action alleges that BC TEL improperly redeemed the Bonds and claims damages as a result thereof. BC TEL is proceeding to file a Statement of Defense in this action. BC TEL believes that the redemption of the Bonds was effected in the manner permitted under the terms thereof and that it will be successful in the defence of this action.

SHAREHOLDERS AND MANAGEMENT

Principal Shareholder

As at December 31, 1997, Anglo-Canadian Telephone Company of Montreal, Quebec, a subsidiary of GTE Corporation, owned beneficially and of record 63,143,943 common shares representing 50.9% of the outstanding common shares of BC TELECOM.

Directors and Officers

The names, principal occupations and municipalities of residence of the directors and officers of BC TELECOM and the dates the directors first became directors are as set forth below. Each director was elected a director of BC TELECOM April 28, 1998, and will serve until the next annual meeting or until his or her successor is elected or appointed.

Directors

Name and Residence	Principal Occupation	Became Director
Brian Charles Bentz[5] Vancouver, British Columbia	President and Chief Executive Officer, Simons International Corporation (Engineering company)	1998
Donald Alisdair Calder West Vancouver, British Columbia	President and Chief Executive Officer of BC TELECOM Inc. and BC TEL	1997
Brian Albert Canfield[3][4] Point Roberts, Washington	Chairman of BC TELECOM and BC TEL	1993
Pierre Choquette[2][4] West Vancouver, British Columbia	President and Chief Executive Officer, Methanex Corporation (Marketer and producer of methanol)	1997
George Neldon (Mel) Cooper, C.M., O.B.C.[2][4] Victoria, B.C.	President, Seacoast Communications Group Inc. (Broadcasting)	1993

Name and Residence	Principal Occupation	Became Director
David Lee Emerson[3] Vancouver, British Columbia	President and Chief Executive Officer, Canfor Corporation (integrated forest products company)	1996
Mary Rendina Kathleen Hamilton, Q.C., O.B.C.[1][5] Kelowna, British Columbia	Corporate Director	1993
Iain James Harris[1][3] Vancouver, British Columbia	Chairman and Chief Executive Officer, Summit Holdings Ltd. (Investment and holding company)	1997
Robert Horne Lee, O.B.C.[1][5] West Vancouver, British Columbia	President, Prospero Group of Companies (Commercial real estate sales, investment and property management)	1993
Michael Terry Masin[4] Greenwich, Connecticut	Vice Chairman & President — International, GTE Corporation (Consolidated group of telecommunications companies)	1995
John Wilson Pitts[2][5] Vancouver, British Columbia	Corporate Director	1993
Barbara Joyce Rae, C.M., O.B.C.[2][4] West Vancouver, British Columbia	Corporate Director	1993
Firoz Abdul Rasul[3] Vancouver, British Columbia	President and Chief Executive Officer, Ballard Power Systems Inc. (Development and commercialization of power generation systems)	1997
Fares Fouad Salloum[1][3] Dallas, Texas	Senior Vice-President — International Operations, GTE Service Corporation (Consolidated group of telecommunications companies)	1998
Geraldine Bonnie Sinclair, Phd[2][3] Vancouver, British Columbia	President and Chief Executive Officer, Ncompass Labs Inc. (Developer of internet software) and Executive Director, EXCITE Centre (Multi-media research and development centre)	1998

Notes:

(1) Member of Audit Committee.

(2) Member of the Board Governance Committee

(3) Member of the Strategic Policy Committee

(4) Member of the Human Resources and Compensation Committee

(5) Member of the Pension Trust Committee

Officers

Name and Residence	Principal Occupation
Donald Alisdair Calder West Vancouver, British Columbia	President and Chief Executive Officer, BC TELECOM and BC TEL
Charles Kenneth Crump North Vancouver, British Columbia	Senior Vice-President Corporate Services, Chief Financial Officer and Treasurer, BC TELECOM and BC TEL
Ian David Mansfield New Westminster, British Columbia	Senior Vice-President — Strategic Business Development BC TELECOM and BC TEL
Dorothy Elaine Byrne West Vancouver, British Columbia	Vice-President Law and Regulatory Affairs and Corporate Secretary, BC TELECOM and BC TEL
James William Peters Burnaby, British Columbia	Vice-President Mergers & Acquisitions, BC TELECOM

During the past five years all of the directors and officers have been directors of, or employed in various capacities by, the companies indicated opposite their names or predecessor or subsidiary companies thereto, except Pierre Choquette who prior to 1994 was Executive Vice-President of Nova Corporation International and in 1995 was appointed President and Chief Executive Officer of Methanex Corporation; David Lee Emerson who prior to January 1998 was President and Chief Executive Officer of the Vancouver International Airport Authority; Iain James Harris who prior to 1994 was President and Chief Executive Officer of Air BC Limited and in 1995 was appointed Chairman and Chief Executive Officer of Summit Holdings Ltd., Michael Terry Masin who prior to October 1993 was managing partner of O'Melveny & Myers; John Wilson Pitts, who prior to November 1995 was Deputy Chairman of MacDonald Dettwiler & Associates Ltd.; Barbara Joyce Rae, who prior to October 1995 was Chairman of ADIA Canada Ltd; Fares Fouad Salloum who prior to July 1995 was Vice-President, Emerging Services of BC TEL, and from July, 1995 to June, 1997 was Executive Vice-President — Communication Services of BC TELECOM and BC TEL; and Dr. Geraldine B. Sinclair who in 1993 was Director, New Media, Canadian Heritage Project.

As at the date hereof, the directors and officers of BC TELECOM as a group beneficially owned, directly or indirectly, or exercised control or direction of less than 1% of the outstanding common shares of BC TELECOM. The information with respect to share ownership, not being within the knowledge of BC TELECOM, has been furnished by the respective directors and officers individually.

DIVIDENDS

Dividend Record

BC TELECOM declared dividends on its shares during 1996 and 1997 as follows:

	1996 Annual Amount per Share	1997 Annual Amount per Share
Common Shares	$1.31 per share	$1.35 per share[1]
Preferred Shares[2]	$13,680,000	$13,680,000

Notes:

(1) The quarterly dividends paid on common shares were increased from $0.33 per share to $0.34 per share effective July 1, 1997. The quarterly dividend to be paid on common shares was increased to $0.35 per share effective July 1, 1998.

(2) The second preferred shares were issued as part of the Reorganization and are held by BC TEL Mobility Cellular and are being redeemed on April 30, 1998.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

BC TELECOM has a Dividend Reinvestment and Share Purchase Plan providing a means for common shareholders of BC TELECOM and preference and preferred shareholders of BC TEL to invest cash dividends, and optional cash payments of $100 or more up to a total of $20,000 per calendar year, in common shares of BC TELECOM, that may be purchased in the open market or from treasury at BC TELECOM's option. The purchase price for the common shares will be (i) if purchased from treasury, 100% of the average market price for all trades of the common shares of BC TELECOM on The Toronto Stock Exchange in the calendar month immediately preceding the first trading day of each month and (ii) if purchased in the open market, the average cost of such purchases, excluding commissions payable by BC TELECOM.

REGISTRAR, TRANSFER AGENT AND TRUSTEE

Montreal Trust Company of Canada is the registrar and transfer agent for the common shares of BC TELECOM. Montreal Trust Company of Canada is the trustee for the holders of all series of unsecured debentures.

STOCK EXCHANGE LISTINGS

BC TELECOM's common shares are listed on the Vancouver, Toronto and Montreal stock exchanges.

ADDITIONAL INFORMATION

Additional information, including information as to executive compensation, is contained in the proxy information circular of BC TELECOM dated February 26, 1998 excluding the Report of Corporate Governance contained as Schedule A thereto. The Executive Compensation, that appears on pages 6 to 14 thereof, is incorporated herein by reference and is attached as Appendix A hereto.

BC TELECOM's audited consolidated financial statements for the year ended December 31, 1997, together with certain supplemental financial information, are attached as Appendix B hereto. Management's Discussion and Analysis, that appears on pages 33 to 43 thereof, is incorporated herein by reference.

BC TELECOM, upon request to the Corporate Secretary, BC TELECOM Inc., 21st Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7, will provide to any person the following documents when securities of BC TELECOM are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of securities of BC TELECOM:

(a) one copy of this annual information form, together with one copy of any document, incorporated herein by reference;

(b) one copy of the comparative consolidated financial statements of BC TELECOM for the year ended December 31, 1997 together with the accompanying report of the auditors, and one copy of any unaudited financial statements filed by BC TELECOM in respect of any subsequent quarter;

(c) one copy of the Proxy Information Circular of BC TELECOM dated February 26, 1998 in connection with the annual general meeting of shareholders of BC TELECOM held on April 28, 1998 excluding the Report on Corporate Governance contained in Schedule A thereto; and

(d) one copy of any documents not described above that are incorporated by reference into the applicable preliminary short form prospectus or short form prospectus.

At any other time, BC TELECOM will, upon request to the Secretary, provide to any person one copy of any document in (a), (b) or (c) above, upon payment of a reasonable charge if the request is made by a person who is not a BC TELECOM security holder.

BC TEL files an Annual Information Form with certain provincial securities commissions. BC TEL's Annual Information Form may be obtained by BC TEL's security holders by writing to the Corporate Secretary of BC TEL at 21st Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

APPENDIX A

Please refer to the material entitled "Executive Compensation", appearing on pages 6 through 14 of the proxy information circular of BC TELECOM Inc. dated February 26, 1998, which material has been filed previously.

APPENDIX B

Please refer to Management's Discussion and Analysis and BC TELECOM Inc.'s audited consolidated financial statements for the year ended December 31, 1997, appearing on pages 33 through 57 of the 1997 Annual Report of BC TELECOM Inc., which material has been filed previously.

BC TELECOM INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 1997 AND FOR THE YEAR ENDED DECEMBER 31, 1996

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 1997

Earnings Overview

The contribution from continuing operations to BC TELECOM's 1997 common share earnings increased 14.1% to $279.6 million from $245.1 million in 1996. On a per share basis, earnings from continuing operations increased to $2.26 from $1.99 the previous year.

BC TELECOM's common share earnings for 1997 were $283.2 million or $2.29 per share compared to $234.4 million or $1.90 per share in 1996. The 1997 results include a gain of $6.1 million related to the sale of PMC-Sierra, Inc., a high-tech semi-conductor company. This gain was partially offset by a $2.5 million loss from the disposition of assets of MPR Teltech. The 1996 results include a loss of $10.7 million principally from the disposition of assets of MPR Teltech. The following tables indicate the contribution to common share earnings from BC TELECOM's major businesses.

Contribution to Common Share Earnings

	1997	1996	Increase (Decrease)	% Change
			($ millions)	
BC TEL	227.7	200.6	27.1	13.5
Cellular operations	55.8	45.0	10.8	24.0
Other operations	8.3	11.7	(3.4)	(29.1)
Corporate	(12.2)	(12.2)	—	—
Continuing operations	279.6	245.1	34.5	14.1
Discontinued operations	3.6	(10.7)	14.3	—
	283.2	234.4	48.8	20.8

Contribution to Earnings per Share

	1997	1996	Increase (Decrease)	% Change
			($)	
BC TEL	1.84	1.63	.21	12.9
Cellular operations	.45	.36	.09	25.0
Other operations	.07	.10	(.03)	(30.0)
Corporate	(.10)	(.10)	—	—
Continuing operations	2.26	1.99	.27	13.6
Discontinued operations	.03	(.09)	.12	—
	2.29	1.90	.39	20.5

The following sections discuss BC TELECOM's consolidated operating results and financial position, with reference to specific subsidiaries or businesses where appropriate. The information pertains to continuing operations; the accompanying financial statements and notes include detailed information on discontinued operations.

Results of Operations

Operating Revenues

Operating revenues increased 9.4% or $237.4 million to $2,754.6 million in 1997 from $2,517.2 million in 1996. This increase reflects higher local-service revenues as a result of growth in the number of BC TEL and BC TEL Mobility Cellular customers, an increase in monthly service rates for basic telephone service and higher

revenues from several businesses — including information technology services, advanced data networks and the Internet.

	1997	1996	Increase	% Change
	($ millions)			
Local Service	1,403.2	1,217.5	185.7	15.3

The provision of local exchange services to business and residential customers accounted for $95 million of the total increase in local-service revenues. A $2 per month increase in residential and certain business service rates that became effective January 1, 1997 accounted for approximately half of this increase. In addition, a 3.6% increase in customer access lines, down slightly from 3.9% in 1996, added to this increase. Both residential and business line growth in 1997 was slightly below 1996 levels, reflecting decreased migration to the province and some customers choosing wireless rather than wireline service.

Strong growth in BC TEL Mobility Cellular's business resulted in a $42-million increase in local cellular revenues. The cellular subscriber base increased 36% to over 400,000 at year end, while average monthly revenue per customer declined 12% to $70. This decrease in average revenue per customer was driven by very high growth in the lower revenue consumer segment and competitive pricing activity in the higher revenue business segment.

Also contributing to higher local-service revenues was a $15-million increase in revenues from other long-distance service providers for interconnection with our network, reflecting higher interconnection volume partially offset by lower contribution rates. Revenues from SmartTouch network management services increased by $12 million, reflecting market penetration rates ranging from 15% for Call Answer, the integrated voice messaging service, to 25% for Call Waiting. BC TEL also recorded smaller increases in non-recurring charges and in revenues for private line services.

	1997	1996	Decrease	% Change
	($ millions)			
Long-distance service	799.4	805.8	(6.4)	(0.8)

Revenues from message toll and other long-distance services declined 1.1% or $8 million in 1997. A 1.2% increase in the number of long-distance minutes was more than offset by a decline in average revenue per minute as long-distance prices continued to fall. On a revenue basis, BC TEL's average market share declined four percentage points to 72%, with declines in both the residential and business markets. The introduction of the Affinity residential savings plan in March stemmed the rate of market share loss experienced early in 1997. In addition, based on the revenue settlement agreements in place between BC TEL and other Canadian telephone companies, BC TEL's long-distance revenues were $5 million less in 1997 than in 1996. Partially offsetting these reductions was a $7-million increase in BC TEL Mobility Cellular's long-distance revenues.

	1997	1996	Increase	% Change
	($ millions)			
Other	552.0	493.9	58.1	11.8

Higher revenues from outside BC TELECOM's local, long-distance and cellular businesses accounted for $49 million of the increase in this category. ISM-BC, BC TELECOM's full-service supplier of information technology services, accounted for two-thirds of this increase, reflecting higher external and project-related revenues. BC TEL Interactive reported an increase in revenues from its 54,000 Sympatico Internet customers while BC TEL Advanced Communications recorded higher revenues from its data network services.

BC TEL reported increases in equipment sales of $8 million and directory advertising revenue of $7 million, partially offset by a decline in terminal equipment rentals and lower billing service charges and interest. Uncollectible revenues, which are netted in this category, remained unchanged.

Operating Expenses

Operating expenses increased 9% or $170.7 million to $2,067.2 million in 1997 from $1,896.5 million in 1996. About 80% of this increase is attributable to higher depreciation expense and to BC TELECOM's non-traditional businesses, while only 20% is attributable to the ongoing operations of BC TEL.

	1997	1996	Increase	% Change
	($ millions)			
Operations	$1,493.2	$1,398.8	$94.4	6.7

Reflecting significantly higher revenues from non-traditional businesses, related operations expenses increased $57 million in 1997. BC TEL Mobility Cellular accounted for 40% of this increase, due to the higher costs associated with a significantly larger customer base and increased acquisition costs in an intensely competitive wireless market. ISM-BC and BC TEL Advanced Communications accounted for most of the remaining increase in operations expense for non-traditional businesses.

BC TEL's operations expense increased 3.2% or $37 million in 1997. The major contributing factors were:

- new systems development costs associated with Year 2000 requirements and the development of an enterprise-wide management and accounting system;
- higher costs associated with increased revenues in directory and equipment sales;
- higher sales and marketing expenses as a result of a more competitive marketplace;
- higher workforce transformation amortization costs;
- higher labour inflation reflecting the terms of the existing union contract.

In total, these factors resulted in a $74 million increase in BC TEL's operations expense.

Partially offsetting this increase was a $37 million reduction in BC TEL's core operations expense, which includes repair and maintenance, operator service, order processing and other plant operations. The savings reflect a full-year impact of the 1996 voluntary retirements and separation programs and a continuing emphasis on cost restraint in 1997.

	1997	1996	Increase	% Change
	($ millions)			
Depreciation and amortization	$574.0	$497.7	$76.3	15.3

BC TEL accounted for $57 million of this increase. Approximately two-thirds of this amount resulted from accelerated depreciation rates, reflecting the reduction in estimated useful life for analog and digital switches, transmission equipment, copper cable, inside wire and other asset classes. Growth in BC TEL's asset base accounted for the remaining one-third of BC TEL's increase. BC TELECOM's non-traditional businesses accounted for the remaining $19 million increase. BC TELECOM's composite depreciation rate increased to 8.1% from 7.4% in 1996.

Other Income

	1997	1996	Increase	% Change
	($ millions)			
Other income	$11.0	$7.8	$3.2	41.0

The increase in other income was primarily due to a $4-million gain on the sale of several real estate properties in 1997. In addition, there were small reductions in interest and lease finance income, partially offset by a lower net loss on investments.

Financing Costs, Net

	1997	1996	Decrease	% Change
		($ millions)		
Financing costs, net	$137.2	$139.3	$(2.1)	(1.5)

Interest expense declined $5 million in 1997, primarily due to lower prevailing rates of interest and borrowing levels. Financing costs were further reduced by a $4-million increase in the allowance for funds used during construction, which is netted in this category. Partially offsetting these reductions were a $4-million cost associated with the redemption of the Series AL Bonds and a $3-million foreign exchange loss on short-term debt.

Income Taxes

	1997	1996	Increase	% Change
		($ millions)		
Income taxes	$274.1	$237.2	$36.9	15.6

Higher pre-tax earnings increased income taxes by $35 million in 1997. An increase in the effective tax rate from 48.5% to 48.8% accounted for the remainder of the increase. A detailed reconciliation of the statutory income tax rate to the effective rate is included in Note 5 to the financial statements.

Liquidity and Capital Resources

Cash Flow

Cash from operations before working capital increased to $843.4 million from $786.8 million in 1996 — due to increased earnings and higher depreciation and amortization charges, partially offset by a reduction in deferred income taxes. After adjusting cash from operations for changes in working capital, and deducting dividends to shareholders and investment expenditures, free cash flow was $160 million in 1997 compared to negative $54.4 million in 1996. The completion of an asset securitization transaction with cash proceeds of $150 million was a major contributor to the increase in free cash flow in 1997.

Investing Activities

Capital expenditures continue to represent the single largest use of BC TELECOM's funds.

These expenditures allow BC TELECOM to:

- satisfy the continuing growth in service demand;
- increase the operating efficiency and productivity of both our wireline and wireless networks;
- introduce new products and services into an increasingly competitive marketplace.

Gross capital expenditures totalled $602.7 million in 1997 compared to $590 million in 1996. Investment to provide regulated voice and data services offered by BC TEL accounted for $453 million of the 1997 expenditures. These expenditures reflect the addition of 87,000 customer lines, the conversion of 33 analog central offices to digital technology and the upgrading of 13,000 customer lines to individual line service. In addition, 4,500 T1 systems were added to meet the demand for special services.

BC TELECOM's non-traditional businesses accounted for $150 million in capital expenditures in 1997. BC TEL Mobility Cellular invested $86 million, adding 42 analog and 26 digital cell sites during the year.

BC TEL Advanced Communications invested $28 million in 1997 expanding the high-speed data network to nine new centres, increasing internet capacity by 400% and introducing six major new services.

Dividends

Dividends declared to common shareholders totalled $167.2 million in 1997, representing 59% of earnings from continuing operations. For the 11th consecutive year, BC TELECOM increased its common dividend. The quarterly rate was increased by $.01 to $.34 per share in the second quarter.

Financing Activities

BC TELECOM had a total of $179.8 million in commercial paper notes outstanding at year end — an increase of $20.4 million from the $159.4 million outstanding at the end of 1996. These notes have been reclassified as long-term debt on the balance sheet on the basis of the availability of a $180-million long-term credit facility agreement. BC TEL issued an aggregate of $185 million in structured medium term note debentures during the first eight months of 1997. The issues provided all-in funding at a cost below the 90-day bankers' acceptance rate.

Late in the year, BC TEL redeemed its Series AL First Mortgage Bonds, as permitted under the terms of the trust deed.

Credit Ratings

During 1997, the Canadian Bond Rating Service (CBRS) reaffirmed the existing ratings of BC TELECOM Inc. debentures and commercial paper and the ratings of BC TEL first mortgage bonds, debentures (including medium term note debentures), preferred shares and commercial paper with a stable outlook.

In July 1997, the Dominion Bond Rating Service (DBRS) confirmed the existing ratings of the same securities. DBRS assigned a stable trend to all securities except commercial paper. DBRS has assigned a negative trend to the commercial paper programs of R-1 (middle) rated Canadian telecommunications companies including BC TELECOM and BC TEL.

The table below provides both agencies' current ratings for all rated BC TELECOM and BC TEL securities.

	CBRS	DBRS
BC TELECOM		
Debentures	A (High)	A
Commercial Paper	A-1	R-1 (middle)
BC TEL		
First Mortgage Bonds	A+ (High)	A (high)
Debentures	A+ (Low)	A (high)
Commercial Paper	A-1 +	R-1 (middle)
Preferred Shares	P-1	Pfd-2

Regulatory and Business Environment

Developments in Local Service

In April 1997, the CRTC approved BC TEL's proposal to consolidate its existing 11 rate groups into seven. The consolidation resulted in selective increases to residential local-service rates and selective decreases to business local-service rates. The increases constituted another step in BC TEL's plan to bring local-service rates closer to their associated costs.

On May 1, 1997, the CRTC issued two landmark decisions. The first decision established the regulatory framework for local-service competition, effective January 1, 1998; the second decision specified the price cap regime to take effect the same date.

The local competition framework features:

- Mandated interconnection arrangements between all local exchange carriers whether incumbents (current telephone companies) or new entrants.
- Mandated unbundling of 'essential' service and facility components required by new entrants — central office codes, subscriber listings and local loops in rural areas. To facilitate competition in the early stages, incumbents' local loops are deemed 'essential' during the first five years.
- The requirement that telephone companies remain subject to carrier-of-last-resort obligations, until satisfactory resolution of issues related to providing service to high-cost areas in a fully competitive environment.
- Since full rate rebalancing could lead to significant residential rate increases, the subsidy from long-distance services is to be maintained at some level to promote affordable access to basic residential service.
- A portable contribution approach, whereby a local-service subsidy will be available to all carriers who provide residential services.
- Unrestricted resale of incumbent's unbundled components and retail services is to be allowed, but incumbents are not required to provide discounted rates to resellers.

The second decision specified that the Price Cap Index (PCI) will consist of:

- the Gross Domestic Product Price Index as the inflation measure;
- a productivity offset of 4.5%;
- limited exogenous factors arising from events beyond the telephone companies' control.

The PCI will apply to a single basket of Utility segment services; that single basket is to be divided into three sub-baskets:

- basic residential local services;
- single and multi-line local business services;
- remaining Utility segment services to be determined in a follow-up proceeding.

There will be no earnings sharing overlay; in other words, no requirement for telephone company earnings that exceed a specified rate of return to be passed on, in whole or in part, to subscribers. The initial plan will be subject to review in four years.

The CRTC subsequently conducted a proceeding to address the level of residential local-service rates to coincide with the start of price caps. On December 18, 1997, the CRTC granted BC TEL an interim average rate increase of $2.84 to its residential basic rates, effective January 1, 1998. In that proceeding, BC TEL said its requested rate increases would not allow for full recovery of the estimated revenue requirement shortfall at the start of price caps.

The Company had proposed a Factor-A adjustment to its price cap formula which would provide additional room — beyond the basic price cap limits — for additional increases to local rates during the price cap period. The CRTC indicated in its decision that it believes that a Factor-A adjustment is a possibility for BC TEL. This matter will be further addressed in the CRTC's final determinations to be issued in March 1998.

In the same proceeding, BC TEL proposed to reduce many of its business single-line and multiline rates to more closely reflect the cost of providing those services. In its interim decision, the CRTC denied the business restructuring proposal, on the basis of concerns that the proposed rate reductions might lead to the need for even greater residential rates increases. On February 9, 1998, BC TEL submitted a revised proposal that includes decreases in urban business rates and increases in areas where prices have traditionally been lower than costs.

Forbearance on Long Distance Services

In a December 1997 decision, the CRTC granted regulatory forbearance to the Stentor Operating Companies (SOCs) for their toll (both basic toll and discount toll) and toll-free services, with respect to most of the provisions of the Telecommunications Act. In particular, the SOCs will no longer be required to file tariffs and seek CRTC approval for the rates they charge for their toll and toll-free services. The rates for these forborne services will no longer be required to pass an imputation test. In other words, the services no longer need to be priced above certain prescribed floor levels.

However, the CRTC imposed restrictions on the SOCs' basic toll services, reflecting concerns that revenues from basic toll services could be used to subsidize below-cost pricing in other toll and toll-free market segments to the detriment of workable competition and of subscribers in less competitive areas. The two conditions are:

- An upward pricing constraint on each basic toll rate schedule. Rate increases within a schedule are to be offset by corresponding decreases in the same schedule, so that there is no change to the weighted average rate for the schedule.
- A prohibition against route de-averaging of basic toll rates. This is to prevent the SOCs from raising rates for users in high-cost remote areas where there is no effective competition.

In its forbearance decision, the CRTC also removed the restriction preventing the SOCs from bundling terminal equipment with network services. The CRTC re-affirmed that bundling toll and toll-free services (now forborne) with telephone company local exchange services will still be allowed, subject to constraints specified in an earlier decision.

Other Issues

In April 1997, a proceeding was initiated to consider whether the SOCs should continue to be prohibited from joint marketing cellular products and services with other communications services. In June 1997, the CRTC expanded the scope of the proceeding to include issues related to the bundling by a telephone company of tariffed services with:

- services of an affiliated company;
- services of a non-affiliated company;
- non-telecommunications services offered in-house by the telephone company (e.g. broadcasting services).

The public process closed in July 1997 and a decision is still pending.

With respect to international long-distance services, the CRTC issued a decision in May 1997 allowing the SOCs to participate in the international simple resale of Teleglobe's international private lines. The decision puts the SOCs on an equal footing with their competitors in international long-distance services. In December 1997, after a further review, the CRTC rescinded the prohibition against international switched hubbing, which entails routing Canadian overseas traffic to a second country over resold Teleglobe international private lines, and then routing the traffic to a third country via the international public switched telephone network. Allowing switched hubbing, the CRTC ruled, would be in line with policy objectives of ensuring reliable and affordable telecommunications for Canadians, enhancing the efficiency and competitiveness of Canadian telecommunications, and encouraging investment in Canadian transmission facilities.

In February 1997, the SOCs and Teleglobe Canada reached a new three-year agreement on routing international traffic through Teleglobe. The agreement allows BC TEL to continue its relationship with Teleglobe for the majority of overseas direct dialed traffic, while allowing the flexibility to use alternate routing arrangements through foreign carriers' services, such as international simple rebate and switched hubbing.

The agreement establishes minimum traffic volumes that the SOCs will route through Teleglobe's network in return for a 15% annual reduction to Teleglobe's tariff. Also, Teleglobe has agreed to terminate calls to Canada through the SOCs for a proportionate amount of inbound overseas traffic, and to continue leasing the Canadian fibre ring network supplied by BC TEL and the other SOCs.

Outlook

This outlook contains forward-looking information with respect to BC TELECOM and certain of its subsidiaries. This prospective information, by its nature, necessarily involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the information presented. The dynamics of the marketplace and the impact of recent and pending CRTC decisions may lead to such differences.

Accounting Policy Review

The continued use of accounting principles applicable to the telecommunications industry in Canada (regulatory accounting provisions) assumes that the approved rates are adequate to recover costs over time, and can be charged and collected from customers. Introduction of price cap regulation and local service competition in 1998 will remove the assumption of cost recovery and require BC TEL to discontinue the use of regulatory accounting provisions. BC TEL is performing valuation tests on capital assets while awaiting a final CRTC decision regarding implementation of price cap regulation and local rate increases, which will impact the results of such tests.

The discontinuance of regulatory accounting provisions will result in immediate charges against earnings for those assets and liabilities, such as business transformation costs and inside wire assets, that have been deferred under regulatory accounting provisions, and for any capital assets requiring adjustments as a result of valuation tests. Also, BC TEL's capital assets would be subject to realizable value tests on an ongoing basis. If necessary, such revaluation would also be charged against earnings.

Year 2000 Challenge

BC TELECOM operates telecommunications networks that are comprised of complex systems of switches which are interconnected with other network equipment and the equipment of other telecommunications companies. We also make use of computerized information technology to carry out many business processes. As a result, the Year 2000 issue could impact the operations of BC TELECOM and its subsidiaries, including processes, systems and business functions.

Due to the importance of information technology to its operations, BC TELECOM has had an active Year 2000 program in place since 1996. The objective is to ensure that our processes, systems and business functions will be ready for the Year 2000 transition. Our Year 2000 program has been developed in conjunction with our principal shareholder, GTE Corporation, whose Year 2000 program has been certified by the Information Technology Association of America.

BC TELECOM's Year 2000 program consists of inventory, assessment and analysis of systems, networks and business processes, the remediation of impacted software and systems, and the verification of proper functioning by way of validation testing. Progress on the Year 2000 program is reviewed by senior management on an ongoing basis and updates are provided on a regular basis to our Board of Directors.

In 1997, we completed an inventory of business applications and identified those lines of computer software code requiring modification. As of December 31, 1997, we had completed modification and readiness testing of approximately two-thirds of the identified lines of code. The remaining lines of code are scheduled for completion and testing in 1998.

We've also contacted significant suppliers for the purpose of determining the extent to which BC TELECOM and its customers are vulnerable for the failure of these suppliers to remedy their own Year 2000 issues.

We've developed a detailed list of key suppliers and we're working with Stentor Alliance members, GTE Corporation and members of the Canadian Year 2000 Telecommunications Industry Forum to share in managing supplier product testing. This activity is still ongoing, due to the business community's relatively recent response to the Year 2000 challenge. Continued success depends on the timely delivery of Year 2000 compliant products from our suppliers.

Our telecommunications networks are interconnected with networks of other service providers. Any failure of these other networks may have an adverse impact on BC TELECOM and our customers. Although we

currently expect that our networks will be ready for the Year 2000 transition, we are engaged in discussions with other national and international telecommunications service providers, through active participation in industry forums, for the purpose of exchanging and coordinating a response to the Year 2000 challenge.

To date, we are pleased with our progress in addressing the Year 2000 challenge. We currently believe that our essential processes, systems and business functions will be ready for the Year 2000 transition.

Total Year 2000 program costs are estimated at approximately $60 million, of which $16 million is attributable to the purchase of network equipment which will be capitalized. The remaining $44 million consists of direct Year 2000 costs which are expensed in the year incurred. To date, BC TELECOM has expended direct Year 2000 costs of approximately $13 million.

Revenues and Expenses

Local-service revenue growth is expected to continue in 1998, albeit at a lower growth rate than in 1997. New local-service competition and softness in the B.C. economy will contribute to the lower growth rate. Customer access line growth is expected to be about 2.8% — below 1997's 3.6% growth rate. In addition to growth in demand for service, the $2.84 average monthly increase in local-service rates for residential lines effective January 1, 1998 will also increase local exchange service revenues in 1998.

We also expect revenue growth from BC TEL Mobility Cellular — despite the addition of two new PCS competitors in 1997. The subscriber base will continue to grow in 1998, albeit at a lower rate than in 1997. Average monthly revenue per customer will continue to decline and customer churn rates are expected to increase, primarily due to intensifying competition in the marketplace.

Long-distance service revenues are expected to continue to decline in 1998 as all competitors continue to compete and price aggressively. Average market share is expected to decline to about 70% in 1998 compared to 72% in 1997 and 76% in 1996.

BC TEL expects to achieve further reductions in core operating expenses in 1998. These savings will be reinvested primarily in strategic initiatives to protect and grow core local, long distance and wireless businesses, to grow new services such as high-speed access and interactive multimedia and to take advantage of new business opportunities.

Liquidity and Capital Resources

BC TELECOM has made substantial commitments as part of its planned capital expenditure program for 1998, and to a lesser extent for subsequent years. It is estimated that gross capital expenditures will be $570 million in 1998. BC TELECOM expects to finance this capital expenditure program with cash generated from operations.

A prospectus dated October 31, 1996 provides for the issuance of up to $500 million in BC TEL medium-term note debentures over a two-year period. By the end of 1997, $210 million had been issued. No further issues of this debt are expected in 1998. Sinking fund redemptions of BC TEL first mortgage bonds and market purchase of any outstanding securities of BC TEL or BC TELECOM will be undertaken in 1998 where warranted.

Litigation

Rogers Communications Inc. brought an action in the Federal Court (Trial Division) against the Attorney-General of Canada and BC TELECOM Inc., seeking an order that the Governor General in Council acted without jurisdiction in issuing a Direction under the Broadcasting Act permitting a subsidiary of BC TELECOM Inc. to apply to the CRTC for a broadcasting distribution undertaking licence. This matter was heard by the Federal Court in October 1997 and judgment has not been pronounced.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 1996

Earnings Overview

BC TELECOM's common share earnings for 1996 were $234.4 million or $1.90 per share compared to $240.3 million or $2.00 per share in 1995. These results include the loss in 1996 of $10.7 million or $.09 per share from discontinued operations — principally the disposition of assets of MPR Teltech, a wholly-owned subsidiary of BC TELECOM. Common share earnings in 1995 included a gain of $25.6 million or $.22 per share resulting primarily from the sale of our interest in PMC-Sierra, Inc., a high-tech semi-conductor company.

The following sections discuss our consolidated operating results and financial position, with reference to specific subsidiaries or businesses where appropriate. The information pertains to our continuing operations; the accompanying financial statements and notes include detailed information on discontinued operations.

Results of Operations

Operating Revenues

Operating revenues increased 8.3% or $192.6 million to $2,517.2 million in 1996 from $2,324.6 million in 1995. Primarily, this increase reflects higher local-service revenues as a result of growth in the number of BC TEL and BC TEL Mobility customers and an increase in monthly service rates for basic telephone service.

	1996	1995	Increase	% Change
	($ millions)			
Local service	1,217.5	1,033.4	184.1	17.8

The provision of local exchange services to business and residential customers accounted for $98 million of the total increase in local-service revenues. A $2 per month increase in basic business and residential service rates that became effective January 1, 1996 accounted for approximately half of this increase. Another factor was a 3.8% increase in customer access lines — up from 3.1% in 1995. While the increase in the number of residential lines remained at the 45,000 level, business line growth increased to 42,000 lines in 1996 compared to 24,000 in 1995. This growth reflects both increased demand for Internet access and the continuing growth in B.C.'s tourism industry.

Strong growth in BC TEL Mobility Cellular's business in 1996 resulted in a $42-million increase in local cellular revenues. Our cellular subscriber base increased 37% to just over 300,000 at year end, while average monthly revenue per customer declined 9% to $80 from $88 in 1995.

Also contributing to higher local-service revenues was a $14 million increase in revenues from our SmartTouch™ portfolio of enhanced services, reflecting higher market penetration rates for all services and a large increase in pay-per-use services. Year-end market penetration rates were about 25% for Call Waiting, just under 15% for Call Display and over 10% for Call Answer. A $10-million increase in revenues from competitors for interconnection with BC TEL's network plus smaller increases in directory assistance charges, private line services and non-recurring charges accounted for the remainder of the increase in local-service revenues.

	1996	1995	Decrease	% Change
	($ millions)			
Long-distance service	805.8	821.4	(15.6)	(1.9)

Revenues from message toll and other long-distance services declined 6.9% or $58 million in 1996. Although calling volumes declined only slightly, per-call revenue declined more than 5% as long-distance prices continued to fall. On a revenue basis, BC TEL's average market share declined 7% last year to 76%, with the most significant loss in the residential market. The rate of market share loss slowed in the latter part of 1996, in

part due to the introduction of the Real Plus Extra™ savings plan and by packaging our long-distance service with free or discounted Sympatico™ Internet service.

Partially offsetting this decline, BC TEL's net share of long-distance revenues pooled with other Canadian telephone companies was $37 million more in 1996 than 1995. This increase was primarily the result of a larger revenue pool available to be shared by the Canadian telephone companies. In addition, BC TEL Mobility Cellular accounted for a $6-million increase in long-distance revenues.

	1996	1995	Increase	% Change
	($ millions)			
Other	493.9	469.8	24.1	5.1

Higher revenues from BC TELECOM's non-regulated businesses accounted for $23 million of the increase in this category. Not included here is the significant increase in cellular revenues — which is reflected in the local and long-distance service revenue categories. ISM-BC reported higher external and project-related revenues, BC TEL Advanced Communications recorded higher revenues from Ubiquity broadband services, and BC TEL Interactive reported an increase in revenues from the introduction of Sympatico Internet service and from BC TEL Discovery Learning services.

BC TEL reported a small overall increase in other revenues. Directory advertising revenues increased $4 million, primarily due to higher advertising rates. Uncollectible revenues, which are netted in this category, decreased $7 million due to an improvement in bad debt recoveries. Partially offsetting these changes was a decrease in terminal rental revenues of $7 million, as that market continues to decline.

Operating Expenses

Operating expenses increased 7.1% or $125.4 million to $1,896.5 million in 1996 from $1,771.1 million in 1995. About 85% of this increase is attributable to BC TELECOM's non-regulated businesses and to higher depreciation expense, while only 15% is attributable to the ongoing operations of BC TEL.

	1996	1995	Increase	% Change
	($ millions)			
Operations	1,398.8	1,318.7	80.1	6.1

Reflecting significantly higher revenues from non-regulated businesses, related operations expenses increased $45 million in 1996. BC TEL Mobility Cellular accounted for more than half of this increase. It faced higher costs of supporting a significantly larger customer base and higher acquisition costs as a result of B.C.'s intensely competitive cellular market. ISM-BC, BC TEL Interactive and BC TEL Advanced Communications contributed most of the remaining increase in operations expenses for our non-regulated businesses.

Reflecting a continuing emphasis on cost restraint, BC TEL's operations expense increased just 1.8% or $21 million in 1996. The major contributing factors were:

- higher workforce transformation amortization costs;
- higher selling and related expenses as a result of a more competitive marketplace — particularly in long-distance;
- an increase in management incentive compensation based on operational and financial results achieved in 1996;
- smaller increases in billing and collection costs, directory-related costs and property taxes.

Partially offsetting these increases were lower expenses for repair and maintenance, operator service, order processing and other plant operations. These savings stemmed primarily from our voluntary retirement and separation programs that reduced the number of BC TEL employees by 1,450 during 1996.

On a corporate level, operations expense was $14 million higher in 1996, since 1995 included a credit amount for earlier restructuring costs.

	1996	1995	Increase	% Change
		($ millions)		
Depreciation and amortization	497.7	452.4	45.3	10.0

The increase in depreciation and amortization expense was due primarily to the growth of BC TELECOM's asset base, as discussed in the *Liquidity and Capital Resources* section that follows. BC TEL accounted for $31 million of the increase; our non-regulated businesses the remaining $14 million. BC TELECOM's composite depreciation rate increased slightly to 7.4% from 7.2% in 1995.

Other Income

	1996	1995	Decrease	% Change
		($ millions)		
Other income	7.8	11.3	(3.5)	(31.0)

The decrease in other income reflects two partially-offsetting factors. BC TELECOM recorded a $10-million investment loss in 1996 including a $7 million loss on its investment in Medialinx, relating to start-up and development costs for interactive multimedia applications. At the same time, BC TELECOM recorded a $6-million increase in interest income in 1996 due to higher investment balances and interest on tax reassessments.

Financing Costs, Net

	1996	1995	Decrease	% Change
		($ millions)		
Financing costs, net	139.3	143.0	(3.7)	(2.6)

Interest expense declined $7 million in 1996 due to lower prevailing rates of interest and actions taken to minimize interest costs. These actions included redeeming the 9⅞% Series AF First Mortgage Bonds in 1996. Partially offsetting this change was a $3-million decline in the allowance for funds used during construction (AFUDC) which is netted in this category. The AFUDC rate declined to 8.96% in 1996 from 10.59% in 1995.

Income Taxes

	1996	1995	Increase	% Change
		($ millions)		
Income Taxes	237.2	200.4	36.8	18.4

Higher pre-tax earnings increased income taxes by $33 million in 1996. An increase in the effective tax rate from 47.5% to 48.2% accounted for the remainder of the increase. A detailed reconciliation of the statutory income tax rate to the effective rate is included in Note 5 to the financial statements.

Liquidity and Capital Resources

Cash Flow

Cash from operations before working capital increased to $786.8 million in 1996 from $672.7 million in 1995 primarily due to increased earnings and higher depreciation and amortization charges.

After adjusting cash from operations for changes in working capital and deducting dividends to shareholders and net capital expenditures, free cash flow was negative $61.5 million compared to $23.4 million in 1995.

Investing Activities

Capital expenditures continue to represent the single largest use of BC TELECOM's funds. These expenditures allow us to:

- satisfy the continuing growth in service demand;
- increase the operating efficiency and productivity of both our wireline and wireless networks;
- introduce new products and services into an increasingly competitive marketplace.

Gross capital expenditures totalled $590 million in 1996 compared to $597.8 million in 1995. Investment to provide regulated voice and data services accounted for $435 million of the 1996 expenditures. As part of our ongoing network modernization and expansion, 14 local switches were converted to digital technology and 13 exchanges were upgraded to individual line service. In addition, last year saw a major deployment of Integrated Services Digital Network (ISDN) offerings to meet growing demand for high-speed digital services.

BC TELECOM's non-regulated businesses accounted for $155 million in capital expenditures, of which $86 million was invested by BC TEL Mobility Cellular. Our cellular company added 72 analog and 61 digital (CDMA) cell sites during the year. The CDMA digital deployment was completed in the Greater Vancouver area and is ready for commercial launch in early 1997.

Dividends

Dividends to common shareholders totalled $161.7 million in 1996, representing 64% of earnings from continuing operations. For the 10th consecutive year, the Company increased its common dividend. The quarterly rate was increased by $.01 to $.33 per share in the second quarter.

Financing Activities

In 1996, BC TELECOM issued 2.2 million common shares for $50.3 million, primarily through the Dividend Reinvestment and Share Purchase Plan. This plan was modified effective July 1, 1996 to permit a shift to the purchase of BC TELECOM shares on the open market.

BC TELECOM had a total of $159.4 million in commercial paper notes outstanding at year end — a decrease of $63.5 from the $222.9 million outstanding at the end of 1995. These notes have been reclassified as long-term debt on the balance sheet on the basis of the availability of a $180-million long-term credit facility agreement.

BC TEL issued an aggregate of $150 million in structured medium-term note debentures during 1996. The five issues provided all-in funding at a cost 12 to 17 basis points below the 90-day bankers' acceptance rate. During the year, BC TEL redeemed $75.9 million of first mortgage bonds, as permitted under the terms of the trust deed.

Credit Ratings

On April 9, 1996, the Canadian Bond Rating Service (CBRS) reaffirmed the existing ratings of BC TELECOM Inc. debentures and commercial paper and the ratings of BC TEL first mortgage bonds, debentures (including medium-term note debentures), preferred shares and commercial paper with a stable outlook.

On May 9, 1996, the Dominion Bond Rating Service (DBRS) confirmed the existing ratings of the same securities. DBRS assigned a stable trend to all securities except commercial paper, which was given a negative trend.

The table below provides both agencies' current ratings for all rated BC TELECOM and BC TEL securities.

	CBRS	DBRS
BC TELECOM		
Debentures	A (High)	A
Commercial Paper	A-1	R-1 (middle)
BC TEL		
First Mortgage Bonds	A+ (High)	A (high)
Debentures	A+ (Low)	A (high)
Commercial Paper	A-1 +	R-1 (middle)
Preferred Shares	P-1	Pfd-2

BC TELECOM INC.

AUDITED COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995 AND NOTES THERETO TOGETHER WITH AUDITORS' REPORT THEREON

AUDITORS' REPORT

TO: THE SHAREHOLDERS OF BC TELECOM INC.

We have audited the consolidated balance sheets of BC TELECOM Inc. as at December 31, 1997, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements appearing on pages G 46 — G 59, inclusive, present fairly, in all material respects, the financial position of the Company as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Vancouver, B.C.
January 22, 1998
(except with respect to the matter discussed in
Note 20, as to which the date is October 19, 1998)

(Signed) ARTHUR ANDERSEN LLP
Chartered Accountants

BC TELECOM INC.

CONSOLIDATED STATEMENT OF EARNINGS

	Years Ended December 31		
	1997	1996	1995
		(millions)	
Operating Revenues			
Local service	$1,403.2	$1,217.5	$1,033.4
Long distance service	799.4	805.8	821.4
Other (Note 2)	552.0	493.9	469.8
	2,754.6	2,517.2	2,324.6
Operating Expenses			
Operations	1,493.2	1,398.8	1,318.7
Depreciation and amortization	574.0	497.7	452.4
	2,067.2	1,896.5	1,771.1
Operating Earnings	687.4	620.7	553.5
Other income (Note 3)	11.0	7.8	11.3
Financing costs, net (Note 4)	137.2	139.3	143.0
Earnings Before Income Taxes and Minority Interest	561.2	489.2	421.8
Income taxes (Note 5)	274.1	237.2	200.4
Earnings Before Minority Interest	287.1	252.0	221.4
Minority interest	4.0	3.4	3.2
Earnings from Continuing Operations	283.1	248.6	218.2
Discontinued Operations (Note 18)			
Net gain (loss) on disposition of MPR Teltech. Ltd. assets	3.6	(3.4)	(1.8)
Net loss from MPR Teltech Ltd.	—	(7.3)	27.4
Net Earnings	286.7	237.9	243.8
Preference and preferred share dividends	3.5	3.5	3.5
Common Share Earnings	$ 283.2	$ 234.4	$ 240.3
Earnings per Common Share ($)			
Earnings from continuing operations	2.26	1.99	1.78
Common share earnings	2.29	1.90	2.00
Average Common Shares Outstanding (thousands)	123,926	123,445	120,342

BC TELECOM INC.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Years Ended December 31		
	1997	1996	1995
		(millions)	
Balance at beginning of year	$ 957.2	$ 884.5	$ 797.0
Net earnings	286.7	237.9	243.8
	1,243.9	1,122.4	1,040.8
Less — Preference and preferred share dividends	3.5	3.5	3.5
— Common share dividends	167.2	161.7	152.8
Balance at end of year	$1,073.2	$ 957.2	$ 884.5

BC TELECOM INC.

CONSOLIDATED BALANCE SHEET

	December 31		
	1997	1996	1995
		(millions)	
Assets			
Current Assets			
Temporary investment net of bank indebtedness	$ 133.1	$ —	$ —
Accounts receivable (Note 6)	359.9	473.8	447.5
Prepaid expenses and other	51.8	55.6	43.3
Net assets of discontinued operations (Note 18)	(2.7)	8.6	18.6
	542.1	538.0	509.4
Other Assets			
Leases receivable	30.3	28.3	26.9
Deferred charges (Note 7)	189.8	200.9	121.0
Investments (Note 8)	29.6	26.9	32.7
Goodwill and other	22.5	17.8	15.2
	272.2	273.9	195.8
Property, Plant and Equipment			
Buildings, plant and equipment, net (Note 9)	3,750.7	3,727.8	3,644.5
Land	37.9	40.1	40.1
Property under construction	145.0	136.0	133.5
Materials and supplies	44.4	47.9	64.9
	3,978.0	3,951.8	3,883.0
	$4,792.3	$4,763.7	$4,588.2
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness net of temporary investments	$ —	$ 7.4	$ 3.0
Short-term obligations (Note 11)	272.1	110.6	247.0
Accounts payable and accrued liabilities	380.7	470.1	392.6
Income taxes payable	56.6	25.3	72.3
Dividends payable	42.9	41.6	39.7
Advance billings and customer deposits	86.6	78.3	74.2
	838.9	733.3	828.8
Other			
Long-term debt (Note 12)	1,250.1	1,441.5	1,308.1
Deferred income taxes	265.6	304.5	300.5
Post-employment benefit obligations	43.4	31.8	24.0
Other long-term liabilities	33.3	17.4	15.0
	1,592.4	1,795.2	1,647.6
Minority Interest	7.7	6.1	5.4
Shareholders' Equity (Note 13)			
Common equity	2,283.6	2,159.4	2,036.3
Preference and preferred shares	69.7	69.7	70.1
	2,353.3	2,229.1	2,106.4
Commitments and Contingent Liabilities (Note 15)			
	$4,792.3	$4,763.7	$4,588.2

APPROVED BY THE DIRECTORS

(signed) BRIAN A. CANFIELD
Director

(signed) BARBARA J. RAE
Director

BC TELECOM INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31		
	1997	1996	1995
		(millions)	
Operating Activities:			
Earnings from continuing operations	$ 283.1	$ 248.6	$ 218.2
Depreciation and amortization	574.0	497.7	452.4
Deferred income taxes	(38.9)	4.0	(1.3)
Allowance for funds used during construction	(10.7)	(6.6)	(10.0)
Other, net	35.9	43.1	13.4
	843.4	786.8	672.7
Decrease (increase) in non-cash working capital (Note 14)	78.0	(99.7)	94.8
Cash from operations	921.4	687.1	767.5
Less — Dividends to shareholders	170.7	165.2	156.3
	750.7	521.9	611.2
Financing Activities:			
Common shares issued	8.2	50.3	79.6
Long-term debt issued	208.6	169.0	112.1
Change in short-term notes payable	20.4	(63.5)	(116.5)
Redemptions of long-term debt	(259.4)	(108.2)	(72.3)
Other	2.7	2.4	2.2
	(19.5)	50.0	5.1
Investing Activities:			
Capital expenditures, net	(592.0)	(583.4)	(587.8)
Decrease in materials and supplies capitalized	3.5	16.9	(6.0)
Salvage value of plant retired, net	(2.8)	7.6	(2.1)
Increase in investments and other assets	(12.9)	(16.1)	(48.1)
Proceeds on disposition of MPR Teltech Ltd. assets (Note 18)	15.5	—	20.0
Increase in long-term leases receivable	(2.0)	(1.3)	(1.5)
	(590.7)	(576.3)	(625.5)
Cash Position:			
Net increase (decrease) during the year	140.5	(4.4)	(9.2)
Beginning of year	(7.4)	(3.0)	6.2
End of year	133.1	(7.4)	(3.0)
Represented By:			
Bank indebtedness	(23.8)	(13.7)	(4.4)
Temporary investments	156.9	6.3	1.4
	$ 133.1	$ (7.4)	$ (3.0)

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, as they apply to the Canadian telecommunications industry, which is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). These statements conform in all material respects with International Accounting Standards.

The term "Company" is used to mean BC TELECOM Inc. and, where the context of the narrative permits or requires, its subsidiaries.

BC TELECOM Inc. operates in a single industry segment, which is telecommunications services. The Company's principal subsidiary, BC TEL, is regulated by the CRTC. In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain goods and services, and periodically issues directives which affect the accounting treatment of specific items in BC TEL's accounts.

The continued use of accounting principles applicable to the telecommunications industry in Canada (regulatory accounting provisions) assumes that the approved rates are adequate to recover costs over time, and can be charged and collected from customers. The introduction of price cap regulation and local service competition in 1998 will remove the assumption of cost recovery and require BC TEL to discontinue the use of regulatory accounting provisions. BC TEL is performing valuation tests on capital assets while awaiting a final CRTC decision regarding implementation of price cap regulation and local rate increases, which will impact the results of such tests.

The discontinuance of regulatory accounting provisions will result in immediate charges against earnings for those assets and liabilities, such as business transformation costs and inside wire assets, that have been deferred under regulatory accounting provisions, and for any capital assets requiring adjustments as a result of valuation tests. In addition, BC TEL's capital assets would be subject to realizable value tests on an ongoing basis. Such revaluation, if necessary, would also be charged against earnings.

(a) ***Consolidation***

The consolidated financial statements include the accounts of all the Company's subsidiaries of which the principal ones are BC TEL, B.C. Mobile Ltd., BC TEL Mobility Cellular Inc., BC TEL Systems Support Inc., Telecom Leasing Canada (TLC) Limited and ISM Information Systems Management (B.C.) Corporation (75%).

(b) ***Temporary Investments***

Temporary investments are recorded at the lower of cost or market value.

(c) ***Goodwill***

Goodwill, which represents the excess of the cost of acquired business over the fair value attributed to the net identifiable assets, is amortized over 15 years.

(d) ***Property, Plant and Equipment (Property)***

Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and applicable overhead costs. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction is based on BC TEL's regulated rate of return on average invested capital for the previous year, and is included in income as an offset against financing costs. For new telecommunications property, the capitalization rate for 1997 was 9.97% (8.96% — 1996, 10.59% — 1995).

The original cost of retired telecommunications property is charged to accumulated depreciation, and any proceeds on disposition are taken into income.

1. Summary of Significant Accounting Policies (Continued)

(e) ***Depreciation***

Depreciation rates for property are determined by a continuing program of engineering studies for each class of property, according to the year of placing in service and estimated useful life. This is in compliance with regulatory requirements. Depreciation provisions are calculated on a straight-line basis incorporating these studies.

(f) ***Income Taxes***

The Company and its subsidiaries use the tax allocation basis of accounting for income taxes. Deferred income taxes are provided for on timing differences between accounting income and taxable income.

The Company's regulated subsidiary, BC TEL, in accordance with industry practice for telephone companies subject to CRTC regulation, follows the liability method of income tax allocation. This method requires that the balance of deferred income taxes be adjusted for changes in tax rates.

(g) ***Translation of Foreign Currencies***

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(h) ***Leases***

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessor, the majority of capital leases are through its subsidiary Telecom Leasing Canada (TLC) Limited, which acts as a financing intermediary. The long-term leases receivable represent the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Revenue from operating leases of equipment is recognized when service is rendered to customers. The leased equipment is depreciated in accordance with the Company's existing depreciation policy.

(i) ***Research and Development***

Product development expenditures are expensed unless they meet certain identifiable criteria for deferral.

The amount charged to expense for research, development and improvement of new and existing products and services was $1.2 million in 1997 ($9.0 million — 1996, $8.0 million — 1995).

(j) ***Interest Rate Related Contracts***

Interest rate related contracts are entered into for risk management purposes. These contracts are accounted for on the same basis as the underlying exposure being hedged.

2. Other Revenues

	1997	1996	1995
		(millions)	
Service and equipment sales	$314.9	$268.4	$254.1
Directory advertising and sales	158.9	152.3	148.2
Rental revenue	60.5	61.4	67.1
Other	17.7	11.8	.4
	$552.0	$493.9	$469.8

3. Other Income

	1997	1996	1995
		(millions)	
Lease finance income	$ 9.8	$ 11.1	$ 8.6
Investment loss	(8.8)	(9.7)	—
Interest income	5.4	7.0	1.3
Gain on sale of property	4.2	1.0	.4
Other, net	.4	(1.6)	1.0
	$ 11.0	$ 7.8	$ 11.3

4. Financing Costs, Net

	1997	1996	1995
		(millions)	
Interest on long-term debt	$146.0	$142.3	$129.2
Other interest	1.9	3.6	23.8
	147.9	145.9	153.0
Less — Allowance for funds used during construction	10.7	6.6	10.0
	$137.2	$139.3	$143.0

5. Income Taxes

	1997	1996	1995
		(millions)	
Current	$313.0	$233.2	$201.7
Deferred	(38.9)	4.0	(1.3)
	$274.1	$237.2	$200.4

5. Income Taxes (Continued)

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1997	1996	1995
Combined basic federal and provincial statutory income tax rate	45.6%	45.6%	45.6%
Federal large corporation capital tax	.7	1.0	1.1
Allowance for funds used during construction	.1	.5	.1
Equity loss	.4	.2	—
Adjustments for prior years	1.5	.6	.1
Other	.5	.6	.6
Effective income tax rate per Consolidated Statement of Earnings	48.8%	48.5%	47.5%

6. Accounts Receivable

	1997	1996	1995
		(millions)	
Trade receivables	$279.5	$385.3	$355.2
Current portion of leases receivable	40.6	36.0	34.4
Other	39.8	52.5	57.9
	$359.9	$473.8	$447.5

Under an agreement dated November 20, 1997, BC TEL sold, with minimal recourse, accounts receivable for aggregate cash proceeds of $150 million. Pursuant to the agreement, the purchaser will use the proceeds of collection to purchase further receivables from BC TEL. This agreement, which expires in November 2002, is extendable upon BC TEL's request.

7. Deferred Charges

	1997	1996	1995
		(millions)	
Workforce transformation costs	$ 74.9	$108.7	$ 32.1
Pension plan contributions in excess of charges to income	67.8	54.2	54.6
Cost of issuing debt securities, less amortization	9.2	11.1	12.4
Other	37.9	26.9	21.9
	$189.8	$200.9	$121.0

During 1995, BC TEL began a workforce transformation program. As directed by the CRTC, the cost of this program is being amortized to operating expenses over five years. The amount of amortization recorded in 1997 was $25.0 million ($20.9 million — 1996, $.3 million — 1995).

8. Investments

	1997	1996	1995
		(millions)	
Investments carried at cost:			
Alouette Telecommunications Inc.	$ 25.2	$ 25.2	$ 25.1
Other	3.3	.3	3.0
Investments carried at equity	1.1	1.4	4.6
	$ 29.6	$ 26.9	$ 32.7

9. Buildings, Plant and Equipment, Net

	Cost	Accumulated Depreciation	Net Book Value		
			1997	1996	1995
			(millions)		
Telecommunications assets	$5,429.0	$2,709.2	$2,719.8	$2,688.6	$2,643.7
Assets leased to customers	591.5	307.7	283.8	305.9	323.0
Buildings	555.8	211.7	344.1	335.7	340.8
Office equipment and furniture	351.1	133.3	217.8	191.0	123.7
Assets under capital lease	51.2	32.8	18.4	22.4	34.8
Other	350.1	183.3	166.8	184.2	178.5
	$7,328.7	$3,578.0	$3,750.7	$3,727.8	$3,644.5

The composite depreciation rate was 8.13% for 1997 (7.44% — 1996, 7.20% — 1995).

10. Financial Instruments and Structured Transactions

The Company and its subsidiaries use various financial instruments which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and currency risks, and as part of structured financing.

At December 31, 1997, the total notional amount of derivative financial instruments outstanding was $449.1 million ($394.5 million — 1996, $236.2 million — 1995). The fair market value of these instruments at December 31, 1997 was not significantly different from their original value. Use of these instruments is subject to a derivatives policy which requires that no derivative transaction be effected for the purpose of establishing a speculative or a levered position and sets criteria for the credit worthiness of counterparties with whom the Company may enter into transactions.

The fair market value of commercial paper and leases closely approximates their carrying value. As of December 31, 1997 the estimated fair value of long-term debt exceeded the carrying value by approximately $320 million ($275 million — 1996, $207 million — 1995).

11. Short-Term Obligations

Amounts due for redemption within one year, including short-term indebtedness pending permanent financing, are as follows:

	1997	1996	1995
		(millions)	
Notes payable under commercial paper programs	$ —	$ —	$222.9
Current maturities of long-term debt	272.1	110.6	24.1
	$272.1	$110.6	$247.0

At December 31, 1997, $179.8 million ($159.4 million — 1996) of commercial paper notes and $.2 million ($20.6 million — 1996) of current maturities of long-term debt have been classified as long-term debt on the basis of the availability of a $180.0 million long-term credit facility agreement. In addition, the Company had in place available operating lines of credit of $210.0 million ($270.0 million — 1996, $487.5 million — 1995).

12. Long-Term Debt

(a) *Details of Long-Term Debt*

Series	Rate	Maturity	1997	1996	1995
				(millions)	
BC TELECOM Inc. Debentures					
1	7.25%	July 15, 1998	$ 175.0	$ 175.0	$ 175.0
BC TEL First Mortgage Bonds					
AF	9⅞%	November 1, 2003	—	—	73.5
AK	6%	February 15, 1999	30.0	30.0	30.0
AL	11.35%	November 15, 2005	—	118.8	120.0
AN	10.50%	June 12, 2000	117.5	118.8	120.0
			147.5	267.6	343.5
BC TEL Debentures					
1	12%	May 31, 2010	50.0	50.0	50.0
2	11.90%	November 22, 2015	125.0	125.0	125.0
3	10.65%	June 19, 2021	175.0	175.0	175.0
4	9.15%	April 8, 2002	45.6	85.4	100.0
5	9.65%	April 8, 2022	204.4	164.6	150.0
			600.0	600.0	600.0
BC TEL Medium Term Note Debentures					
Issued at varying rates of interest up to 9.35% and maturing on various dates up to 2001			395.0	326.0	176.0
Commercial paper reclassified under a long-term credit facility agreement issued at an average rate of interest of 4.59%			179.8	159.4	—
Other Long-Term Debt			7.7	6.7	14.9
Capital Leases (Note 15b)					
Issued at varying rates of interest up to 11.75% and maturing on varying dates up to 2000			17.2	17.4	22.8
Total debt			1,522.2	1,552.1	1,332.2
Less — Current maturities			272.1	110.6	24.1
Long-Term Debt			$1,250.1	$1,441.5	$1,308.1

12. Long-Term Debt (Continued)

(b) ***BC TELECOM Inc. Debenture Issue Requirements***

BC TELECOM Inc.'s debentures are issued under a Trust Indenture dated July 15, 1993 and are not secured by any mortgage, pledge or other charge. New issues of unsecured debt are subject to restrictions as to debt ratio and ownership of subsidiary companies. The debentures may not be redeemed prior to maturity.

(c) ***BC TEL First Mortgage Bond Issue Requirements***

BC TEL's property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946 under which the first mortgage bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1.5% of the principal. In 1997, sinking fund payments were made in respect of the Series AL and AN First Mortgage Bonds.

(d) ***BC TEL Debenture Issue Requirements***

Debentures are issued under the Trust Indenture dated May 31, 1990 and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of first mortgage bonds are not permitted. New issues of unsecured debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

(e) ***BC TEL Medium Term Note Debenture Program***

Under the terms of the medium term note debenture prospectus, a total of $500.0 million in medium term notes may be issued prior to October 31, 1998. The notes will have maturities, interest rates and other features determined at the time of issue.

(f) ***Retraction/Exchange Provisions on BC TEL Debt***

The outstanding debentures may not be redeemed prior to maturity.

The Series 4 Debentures are exchangeable, at the holder's option, effective on April 8 of any year during the four-year period from 1996 to 1999, for an equal principal amount of Series 5 Debentures. In 1997, $39.8 million ($14.6 million — 1996) of the Series 4 Debentures were exchanged for Series 5 Debentures.

(g) ***Long-Term Debt Maturities***

Long-term debt maturities, excluding capital lease maturities, during each of the next five years are:

	(millions)
1998	$259.8
1999	167.7
2000	117.5
2001	335.0
2002	45.6

13. Shareholders' Equity

(a) *Details of Shareholders' Equity*

			1997	1996	1995
				(millions)	
Common equity					
124,088,935 shares outstanding without par value (123,740,006 shares — 1996), (121,578,409 shares — 1995)			$1,203.1	$1,194.9	$1,144.6
Retained earnings			1,073.2	957.2	884.5
Contributed surplus			7.3	7.3	7.2
			2,283.6	2,159.4	2,036.3
BC TEL Preference and Preferred, cumulative					
		Redemption Premium			
$6.00	Preference	10.0%	.8	.8	.8
$4.375	Preferred	4.0%	5.3	5.3	5.7
$4.50	Preferred	4.0%	4.8	4.8	4.8
$4.75	Preferred	5.0%	7.1	7.1	7.1
$4.75	Preferred (Series 1956)	4.0%	7.1	7.1	7.1
$5.15	Preferred	5.0%	11.5	11.5	11.5
$5.75	Preferred	4.0%	9.6	9.6	9.6
$6.00	Preferred	5.0%	4.3	4.3	4.3
$1.21	Preferred	4.0%	19.2	19.2	19.2
			69.7	69.7	70.1
Total Equity			$2,353.3	$2,229.1	$2,106.4

(b) *Authorized Capital*

BC TELECOM Inc. is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

(c) *Significant Changes During 1997*

The Company issued 291,696 shares during 1997 (345,224 — 1996, 79,265 — 1995) for $6.8 million ($7.5 million — 1996, $1.7 million — 1995) through the Long-Term Incentive Share Option Plan (LISOP) and 57,233 shares during 1997 (5,933 — 1996) for $1.4 million ($.1 million — 1996) through the BC TELECOM Share Option Plan (BCTSOP). No shares were issued during 1997 (1,810,440 shares for $42.7 million in 1996, 3,462,986 shares for $77.9 million in 1995) through the Dividend Reinvestment and Share Purchase Plan.

(d) *Common Shares Reserved*

At December 31, 1997 the following shares remained reserved:

— 1,429,710 shares for issuance under the Dividend Reinvestment and Share Purchase Plan. The current purchase price for the plan is based on the average weighted cost of shares purchased in the open market, excluding any brokerage commissions, or, at the Company's discretion, the average market price in the calendar month immediately preceding the investment date.

13. Shareholders' Equity (Continued)

— 565,418 shares for issuance under the LISOP. Under the terms of the LISOP, the Company has granted key employees options to purchase common shares at fixed exercise prices as follows:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1995	395,300	220,435	$ 24.25
1994	293,756	123,781	23.75 - 26.25
1993	444,300	89,575	19.25 - 21.25
1992	263,725	52,200	19.375 - 22.125
1991	270,600	45,500	20.00

— 1,936,834 shares for issuance under the BCTSOP. Under the terms of the BCTSOP introduced in 1995, the Company has granted key employees options in tandem share appreciation rights and retention options at fixed exercise prices as follows:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1997	435,800	410,600	$ 31.05
1996	427,200	347,368	25.25 - 25.50
1995	213,300	123,833	23.125 - 24.25

Options granted in either plan may be exercised over specific periods not to exceed 10 years from the date granted.

14. Working Capital

Decrease (increase) in non-cash working capital:

	1997	1996	1995
		(millions)	
Accounts receivable	$113.9	$(26.3)	$ 10.6
Prepaid expenses and other	3.8	(12.3)	(10.4)
Accounts payable and accrued liabilities	(80.6)	(20.1)	16.8
Income taxes payable	31.3	(47.0)	72.3
Dividends payable	1.3	1.9	2.3
Advance billings and customer deposits	8.3	4.1	3.2
	$ 78.0	$(99.7)	$ 94.8

15. Commitments and Contingent Liabilities

(a) The Company estimates expenditures for additional capital assets to be $570 million in 1998. Substantial purchase commitments have been made in connection with these expenditures.

(b) The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases.

15. Commitments and Contingent Liabilities (Continued)

At December 31, 1997, the future minimum lease payments under capital leases and operating leases were:

	Capital Leases	Operating Leases
	(millions)	
1998	$11.1	$ 22.3
1999	5.6	14.3
2000	1.1	10.6
2001	—	8.1
2002	—	6.3
Thereafter	—	113.8
Total future minimum lease payments	17.8	$175.4
Less imputed interest	.6	
Capital lease liability	$17.2	

16. Pension Plans and Other Post-Employment Benefits

Pension plans are maintained for substantially all employees. The Telecommunications Workers Union sponsored pension plan for bargaining unit employees requires the Company to contribute a fixed percentage of employee gross earnings to trust funds.

Actuarial valuations are prepared for the Company sponsored pension plan and the management and executive supplementary income plans.

Accrued pension costs for accounting purposes are determined in accordance with generally accepted accounting principles, using management's best estimate assumptions of future events. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the initial net plan assets and obligations are amortized over the expected average remaining service life of the employee group covered by the plans. The cumulative difference between the amount contributed to the pension plans and the amount charged to income is recorded in the consolidated balance sheet under deferred charges. The accrued obligation for management and executive supplementary income plans is recorded in the consolidated balance sheet under post-employment benefit obligations.

Based on the actuarial reports of the Company-sponsored pension plans and management and executive supplementary income plans, which used projected employee earnings in estimating the accrued pension and supplementary income obligations and market related value for asset valuation, a comparison of the plan assets and obligations projected to December 31, 1997 has been estimated as follows:

	1997	1996	1995
		(millions)	
Actuarial value of assets	$983.8	$852.3	$793.1
Actuarial value of obligations	857.2	802.3	788.1
Surplus	$126.6	$ 50.0	$ 5.0

The total pension expense amounted to $60.0 million in 1997 ($57.5 million — 1996, $63.3 million — 1995).

The Company provides supplementary life insurance to eligible retirees and certain health care benefits to inactive employees. The expected costs of these employees' benefits are expensed during the years the employees render service and an accumulated obligation is recognized.

17. Related Party Transactions

Transactions with related parties, primarily affiliates of GTE Corporation (parent company of Anglo-Canadian Telephone Company of Montreal, the Company's principal shareholder) and Stentor Resource Centre Inc., were purchases and sales of telecommunications technology, equipment and supplies, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year the Company purchased goods and services from related parties amounting to $99.5 million ($101.5 million — 1996, $104.1 million — 1995). Sales to related parties amounted to $7.6 million ($4.1 million — 1996, $3.6 million — 1995). These transactions were conducted in the normal course of business at prices established and agreed to by both parties.

18. Discontinued Operations

In 1995, the Company's R&D subsidiary, MPR Teltech Ltd., sold its investment in PMC — Sierra, Inc. for a net gain of $27.4 million, and cash proceeds to the Company of $20.0 million.

In 1996, the Company sold substantially all the business units of MPR Teltech Ltd. Accordingly, the results of operations, any realized gains on sale and all estimated costs of disposition have been accounted for on a discontinued basis and previously reported financial statements have been restated. The remaining assets and liabilities have been segregated on the consolidated balance sheet under the caption "Net Assets of Discontinued Operations."

The 1997 results from discontinued operations include the sale of shares in one of the remaining investments of MPR Teltech Ltd. The shares were sold for gross proceeds of $18.4 million, resulting in an after-tax gain of $6.1 million. The remainder of discontinued results in 1997 ($2.5 million) arose from additional provisions relating to MPR Teltech Ltd.

19. Prior Year Presentation

The 1996 and 1995 amounts have been reclassified, where applicable, to conform with the 1997 presentation.

20. Proposed Merger Between BC TELECOM Inc. and TELUS Corporation

On October 19, 1998 the Company agreed with TELUS Corporation to a merger of equals by way of a plan of arrangement pursuant to which the companies will merge and form a new public company. The business combination is subject to shareholder and regulatory approval and, if approved, is expected to close in 1999. The combination will be accounted for as a pooling of interests.

BC TELECOM INC.

UNAUDITED INTERIM COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 30, 1998 AND SEPTEMBER 30, 1997

Terms of Agreement

The following provides a summary of our proposed merger with TELUS. More detailed information will be included in the material that will be mailed to you in December.

- *Share exchange:* Shareholders will receive both voting and non-voting shares in the new company in exchange for their existing common shares. BC TELECOM shareholders will receive .75 of a voting share and .25 of a non-voting share for each BC TELECOM share currently owned. TELUS shareholders will receive .75 of a voting share and .25 of a non-voting share for each TELUS share currently held, multiplied by the share exchange ratio of .7773.
- *Plan of arrangement:* The merger will be accounted for as a pooling of interests and, as such, the exchange of shares will be on a tax-free basis.
- *GTE ownership:* GTE, which currently owns 50.8% of BC TELECOM, will have a 26.7% share of the merged company. GTE has advised both companies that it will vote in favor of the proposed merger. Total foreign ownership of voting shares will be capped at 33⅓%, which complies with Canadian foreign-ownership rules under the Telecommunications Act and the Broadcasting Act.
- *Board of Directors*: The new board will comprise 16 members, with equal representation from the existing boards of BC TELECOM and TELUS. Brian Canfield, currently BC TELECOM chairman, will be chairman of the new company.
- *Executive team*: George Petty, currently president and chief executive officer of TELUS, will be president and chief executive officer of the new company. The balance of the senior executive team has been designated, and is an equal blend from both executive teams.
- *Company name*: The new company will be called BCT.TELUS Communications Inc. until a new national branding strategy is developed.
- *Headquarters*: The company will be incorporated in B.C., but will maintain executive offices in both B.C. and Alberta.

Questions & Answers

Why a merger?

With our industry changing so radically and becoming so competitive, we knew we had to act decisively to position BC TELECOM to compete and grow. Going it alone was not an option. By merging with TELUS, we will create a new company with the size, financial strength and market leverage to compete and win in today's globally competitive market.

What does this merger mean for shareholders?

By expanding beyond our provincial borders, our new company offers an opportunity to increase shareholder value. We will continue to be a leader in our current markets, and we expect to generate new revenues by accelerating the introduction of new and emerging services nationally. We also expect to achieve annual synergies by the third year of approximately $250 million in operating expenses and $115 million in capital expenses.

What does it mean for customers?

The merger is good news for customers, particularly customers who have business operations or personal ties across the country or around the world. Our new company will provide new high-speed data and Internet services to make businesses more competitive. It will also give consumers faster access to the latest products and services at competitive prices.

What does it mean for employees?

Obviously when two companies of this size and scope merge, there will be some overlap of positions, particularly at the senior management level. Where there are overlaps, a variety of outplacement and support programs will be used. Any changes affecting union positions will be made in consultation with the affected bargaining units.

At the same time, our highly skilled workforce is an important ingredient in our strategy to grow and leverage market opportunities in emerging services across Canada. And as we expand into new markets, we expect to create new employment opportunities.

BC TELECOM INC.

CONSOLIDATED STATEMENT OF EARNINGS

Unaudited (Millions)

	Nine Months Ended September 30	
	1998	1997
OPERATING REVENUES		
Local service	$ 1,248.8	$ 1,046.4
Long distance service	718.6	761.9
Other	399.0	387.1
	2,366.4	2,195.4
OPERATING EXPENSES		
Operations	1,371.0	1,251.7
Depreciation and amortization	403.4	427.4
	1,774.4	1,679.1
OPERATING EARNINGS	592.0	516.3
Other income	14.1	(1.9)
Financing costs, net	97.9	96.2
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	508.2	418.2
Income taxes	238.5	203.4
EARNINGS BEFORE MINORITY INTEREST	269.7	214.8
Minority interest	3.4	3.0
EARNINGS FROM CONTINUING OPERATIONS	266.3	211.8
Extraordinary loss	530.6	—
Net gain on disposition of MPR Teltech Ltd. assets	—	5.6
NET EARNINGS (LOSS)	(264.3)	217.4
Preference and preferred share dividends	2.6	2.6
COMMON SHARE EARNINGS (LOSS)	$ (266.9)	$ 214.8
EARNINGS PER COMMON SHARE ($)		
Earnings from continuing operations	2.12	1.68
Common share earnings (loss)	(2.15)	1.73
AVERAGE COMMON SHARES OUTSTANDING (THOUSANDS)	124,213	123,886

BC TELECOM INC.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Unaudited (Millions)

	As at September 30	
	1998	1997
Balance at beginning of period	$1,073.2	$ 957.2
Net earnings (loss)	(264.3)	217.4
	808.9	1,174.6
Less — Preference and preferred share dividends	2.6	2.6
— Common share dividends	129.2	125.1
Balance at end of period	$ 677.1	$1,046.9

BC TELECOM INC.

CONSOLIDATED BALANCE SHEET

Unaudited (Millions)

	As at September 30	
	1998	1997
Assets		
Current Assets		
Temporary investments net of bank indebtedness	$ 201.7	$ 139.7
Accounts receivable	349.6	458.2
Prepaid expenses and other	104.7	71.8
Net assets of discontinued operations	—	(2.8)
	656.0	666.9
Other Assets		
Leases receivable	26.6	36.6
Deferred charges	121.6	193.7
Deferred income taxes	192.9	—
Investments	4.9	29.2
Goodwill and other	26.8	17.7
	372.8	277.2
Property, Plant and Equipment		
Buildings, plant and equipment, net	2,925.2	3,719.6
Land	35.7	40.1
Property under construction	81.2	133.4
Materials and supplies	59.2	50.6
	3,101.3	3,943.7
	$4,130.1	$4,887.8
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term obligations	$ 477.5	$ 282.6
Accounts payable and accrued liabilities	393.8	386.5
Income taxes payable	20.4	29.2
Dividends payable	44.2	42.9
Advance billings and customer deposits	84.3	83.3
	1,020.2	824.5
Other		
Long-term debt	1,054.5	1,375.9
Deferred income taxes	—	281.2
Post-employment benefit obligations	49.8	38.9
Other long-term liabilities	35.7	35.1
	1,140.0	1,731.1
Minority Interest	9.1	7.4
Shareholders' Equity		
Common equity	1,891.1	2,255.1
Preference and preferred shares	69.7	69.7
	1,960.8	2,324.8
	$4,130.1	$4,887.8

Approved by the Directors,

(Signed) BRIAN A. CANFIELD
Director

(Signed) DONALD A. CALDER
Director

BC TELECOM INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Unaudited (Millions)

	Nine Months Ended September 30	
	1998	1997
Operating Activities:		
Earnings from continuing operations	$ 266.3	$ 211.8
Depreciation and amortization	403.7	427.4
Deferred income taxes	(33.2)	(23.3)
Allowance for funds used during construction	(4.3)	(8.0)
Other, net	1.5	20.5
	634.0	628.4
Decrease (increase) in non-cash working capital	(65.7)	(72.9)
Cash from operations	568.3	555.5
Less — Dividends to shareholders	131.8	127.7
	436.5	427.8
Financing Activities:		
Common shares issued	3.6	5.9
Long-term debt issued	9.7	177.2
Change in short-term notes payable	272.4	(0.6)
Redemptions of long-term debt	(272.3)	(70.2)
Other	0.9	1.2
	14.3	113.5
Investing Activities:		
Capital expenditures, net	(389.7)	(400.5)
Increase in materials and supplies capitalized	(14.8)	(2.6)
Salvage value of plant retired, net	0.8	0.9
Increase in investments and other assets	(17.3)	(2.1)
Net proceeds on disposition of investments	42.5	—
Proceeds on disposition of MPR Teltech Ltd. assets	—	18.4
Increase in long-term leases receivable	(3.7)	(8.3)
	(382.2)	(394.2)
Cash Position:		
Net increase during the period	68.6	147.1
Beginning of year	133.1	(7.4)
End of period	201.7	139.7
Represented by:		
Bank balances	8.9	(7.1)
Temporary investments	192.8	146.8
	$ 201.7	$ 139.7

BC TELECOM INC.

EXECUTIVE COMPENSATION EXCERPT FROM BC TELECOM INFORMATION CIRCULAR DATED FEBRUARY 26, 1998 FOR THE ANNUAL MEETING OF BC TELECOM COMMON SHAREHOLDERS ON APRIL 28, 1998

EXECUTIVE COMPENSATION

1. Summary Compensation Table

The following table sets forth the summary of compensation of each of the Chief Executive Officers and the four named executive officers of the Corporation and its subsidiaries for the year ended December 31, 1997.

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position as of February 26, 1998	Year	Salary ($)	Bonus ($)[4]	Other Annual Compensation ($)[5]	Securities Under Options Granted (#)	All Other Compensation[6]
Brian A. Canfield[1]	1997	$318,000[2]	$306,000		40,000	$139,483[7]
Chairman, B.C.	1996	$510,000	$612,000			1,727.1 DSUs[8]
Telecom Inc. and BC TEL	1995	$450,000	$232,092			
Donald A. Calder	1997	$320,000	$342,273		20,000	$28,928
President and Chief	1996	$250,000	$226,500			1,868.2 DSUs[8]
Executive Officer,	1995	$221,792	$ 91,310			
BC TELECOM Inc. and BC TEL						
C. Kenneth Crump	1997	$265,000	$250,690		20,000	$7,767
Senior Vice-President —	1996	$250,000	$233,250			1,196.4 DSUs[8]
Corporate Services and	1995	$215,000	$ 69,133			
Chief Financial Officer, and Treasurer BC TELECOM Inc. and BC TEL						
Ian D. Mansfield	1997	$207,500	$144,695		15,000	$17,224
Senior Vice-President —	1996	$175,000	$129,150			936.8 DSUs[8]
Operations, BC TEL	1995	$150,000	$ 39,639[3]			
Roy A. Osing	1997	$247,500	$189,585		15,000	1,117.4 DSUs[8]
Senior Vice-President —	1996	$235,000	$186,120			
Marketing, BC TEL	1995	$225,000	$ 78,390			
Paul D. Smith	1997	$200,000	$157,600		15,000	$2,500
Senior Vice-President —	1996	$200,000	$139,360			903.0 DSUs[8]
Human Resources, BC TEL	1995	$180,000	$ 62,712			

Notes:

(1) Brian A. Canfield ceased to be Chairman and Chief Executive Officer of BC TELECOM and BC TEL and Donald A. Calder became President and Chief Executive Officer of BC TELECOM and BC TEL on July 1, 1997.

(2) Mr. Canfield's salary includes an amount of $63,000 paid to him as Chairman in 1997.

(3) Ian D. Mansfield's bonus in 1995 was paid to him as an employee of BC TEL Systems Support Inc. under that company's incentive plan.

(4) Bonus amounts earned under the Annual Variable Reward Plan in any year are paid in the first quarter of the following year. Further details of the Annual Variable Reward Plan are described on page 11.

(5) Perquisites and other personal benefits do not exceed the lessor of $50,000 and 10 percent of the total of the annual salary and bonus of the named executive officers for the financial year and therefore are not disclosed.

(6) The dollar figures in this column represent the aggregate of payment in lieu of earned vacation, payment in lieu of flexible perquisites and employer contribution under the Employee Share Purchase Plan (the "ESPP") to which all employees of the BC TELECOM group may subscribe. Under the ESPP, the employer contributes $1.00 for every $4.00 paid by the employee towards the market purchase of BC TELECOM Inc. Common Shares.

1. Summary Compensation Table (Continued)

(7) This figure is composed of $123,341 paid in respect of vacation earned but not taken over the period 1990 to retirement, $2,500 payment in lieu of flexible perquisites as of date of retirement, and $13,642 employer contribution under the ESPP to date of retirement.

(8) DSUs are deferred share units granted on February 26, 1998, earned by the named executive officers in 1997 under the Medium Term Variable Reward Plan described on page 12.

2. Long-Term Incentive Compensation

BC TELECOM Inc. and its subsidiaries provide long-term incentive compensation to key employees, including executive officers, in the form of the grant of options to purchase Common Shares, in tandem Share Appreciation Rights ("SARs") and retention options under the BC TELECOM Share Option Plan (the "BCTSOP").

The following table sets forth individual grants of options/SARs during the financial year ended December 31, 1997 to the named executive officers.

Option/SAR Grants During the Most Recently Completed Financial Year

Name	Securities Under Options/SARs Granted (#)[1][2]	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price ($/Security)[3]	Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
Brian A. Canfield	40,000	9.18%	31.05	$31.20	February 26, 2007
Donald A. Calder	20,000	4.59%	31.05	$31.20	February 26, 2007
C. Kenneth Crump	20,000	4.59%	31.05	$31.20	February 26, 2007
Ian D. Mansfield	15,000	3.44%	31.05	$31.20	February 26, 2007
Roy A. Osing	15,000	3.44%	31.05	$31.20	February 26, 2007
Paul D. Smith	15,000	3.44%	31.05	$31.20	February 26, 2007

Notes:

(1) An in tandem SAR under BCTSOP permits the optionee to receive the value of the appreciation in the share option to which the SAR is associated without exercising the option. The in tandem SAR cannot be exercised unless the option to which it is associated is exercisable. The exercise of the SAR cancels the optionee's right to exercise the associated option and vice versa. The retention options provide the optionee with an additional option to acquire the same number of Common Shares acquired upon exercise of the initial option at a market price determined at the time the initial option is exercised and is exercisable after three years from the date the initial option is exercised, provided that the optionee has continued to hold the initial shares acquired on the exercise of that initial option.

(2) The options or the in tandem SARs may be exercised, on a cumulative basis, as to 33⅓% on and after each anniversary date of the grant.

(3) The exercise price is the market value on the last trading day prior to the date of grant.

The following table sets forth each exercise of options during the financial year ended December 31, 1997 by the named executive officers.

2. Long-Term Incentive Compensation (Continued)

Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options/SARs at FY-End (#)		Value of Unexercised in-the-Money Options/SARs at FY-End ($)[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Brian A. Canfield			210,968	93,332	4,729,430	1,591,307
Donald A. Calder			43,089	46,667	870,763	795,674
C. Kenneth Crump	7,200	71,600	33,900	43,600	669,308	733,867
Ian D. Mansfield	14,283	160,936	600	26,967	12,825	434,756
Roy A. Osing	31,100	388,725	5,000	35,000	96,250	596,750
Paul D. Smith	26,866	220,441	0	33,334	0	563,013

(1) The value of in-the-Money Options/SARs at the Financial Year-End was calculated based on the market value on the last trading day of the financial year, less the exercise price of those in-the-Money Options/SARs.

3. Defined Benefit Plans

Executive Officers of the Corporation participate in the contributory Pension Plan for Management and Exempt Employees ("Management Plan") and the non-contributory Supplementary Income Plan ("S.I.P") for Executives (together called the "Plans"). The S.I.P. supplements the Management Plan ensuring a total benefit at retirement determined as 2% of a person's highest three years' average Salary and a person's highest five years' average bonus times the total number of years of credited service to a maximum of 35. An individual's highest five years' average bonus is the lesser of the average actual bonus received or the average target bonus set, both over a period of five years. The following table shows the total of the annual retirement benefits payable from the Plans assuming retirement at age 60 or over:

Pension Plan Table

Remunerations ($)[1][2]	Years of Credited Service				
	15	20	25	30	35
175,000	$ 52,500	$ 70,000	$ 87,500	$105,000	$122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000
450,000	135,000	180,000	225,000	270,000	315,000
500,000	150,000	200,000	250,000	300,000	350,000
550,000	165,000	220,000	275,000	330,000	385,000
600,000	180,000	240,000	300,000	360,000	420,000
650,000	195,000	260,000	325,000	390,000	455,000
700,000	210,000	280,000	350,000	420,000	490,000
750,000	225,000	300,000	375,000	450,000	525,000
800,000	240,000	320,000	400,000	480,000	560,000
850,000	255,000	340,000	425,000	510,000	595,000

Notes:

(1) The compensation covered by S.I.P. for each of the named executive officers is based on their respective Salaries and their respective Bonuses shown in the Summary Compensation Table.

3. Defined Benefit Plans (Continued)

(2) The benefit under the Plans is payable for a member's lifetime with a 60% benefit payable to a surviving spouse. The benefit payable under the Plans is not reduced by integration with the Canada Pension Plan or Old Age Security benefits.

The years of credited service as of December 31, 1997 for pension plan purposes for the named executive officers are as follows: Brian A. Canfield, 41.0 years; Donald A. Calder, 26.6 years; C. Kenneth Crump, 23.7 years; Ian D. Mansfield, 28.3 years; Roy A. Osing, 28.6 years; Paul D. Smith 4.3 years.

4. Termination of Employment and Change of Control

The Corporation and BC TEL have entered into agreements dated as of September 10, 1997 with each of the named executive officers (with the exception of Brian A. Canfield who retired as an employee effective July 1, 1997) which include provisions respective the termination of their employment within 24 months of a change of control of the Corporation or BC TEL. The agreements provide that if the employment of any of these executives is terminated at any time other than for just cause or by reason of death, disability or retirement, the executive will be paid a severance payment which in the case of the chief executive officer will be equal to 2.5 times the aggregate annual compensation and incentive compensation being paid to him at the time of termination, and in the case of the other named executive officers, equal to 2 times the annual compensation and other incentive compensation paid to them at the time of termination. This termination of employment includes a termination by the executive within that period for reason of constructive dismissal.

In addition, under these agreements, if any person or group of persons acting jointly or in concert, acquires or proposes to acquire 100% of the Common Shares of the Corporation, all of the options held by the named executive officers shall fully vest.

5. Composition of the Compensation Committee

The following individuals served as members of the Corporation's Human Resources and Compensation Committee (the "Committee") during 1997:

Member	Duration of Membership During 1997
Brian A. Canfield — Chair	July 1 — December 31
G. Neldon (Mel) Cooper	July 1 — December 31
David L. Emerson	July 1 — December 31
W. Robert Wyman — Chair	January 1 — June 19
Michael T. Masin	January 1 — December 31
Gordon F. MacFarlane	January 1 — December 31
John W. Pitts	January 1 — July 1
Thomas W. White	January 1 — June 19

6. Report on Executive Compensation

BC TELECOM's executive compensation program is administered by the Human Resources and Compensation Committee, made up of five non-employee Directors. The main purpose of the Committee is to establish and implement a plan for executive succession, continuity and compensation. The Committee met seven times in 1997 to consider and make decisions regarding these matters, in accordance with policies approved by the Board of Directors. Recommendations for changes to the policies are reviewed on a regular basis to ensure they remain current, competitive and consistent with the Corporation's overall goals.

The Committee develops and recommends to the Board for approval the Corporation's executive compensation policy and guidelines and its decisions regarding the compensation paid to the executive management. The Committee oversees the terms of reference and selection of outside consultants to review executive compensation policies for BC TELECOM.

Compensation Objectives and Principles

The guiding principles of the Committee in determining executive compensation are to provide competitive compensation packages to attract, motivate and retain the most qualified executives who will enhance the growth and profitability of BC TELECOM. With the rapid development of competition in the business of BC TELECOM and its subsidiaries, a compensation plan that addresses these guiding principles has become a business imperative. The executive compensation plan that is in place creates strong links between executive compensation and the Corporation's strategic objectives. It also focuses on optimizing the balance between shortterm and longterm objectives.

The Committee relies on the expertise of outside consultants to conduct surveys and provide competitive data, which form the basis for compensation levels paid. The salary ranges and structure, including the incentive components, are based on market analyses carried out each year and reflect competitive practices in the marketplace.

Variables such as corporate size and earnings, rates of growth, complexities of management related to the transition from regulated to competitive markets and the development of new business opportunities are reflected in this data. The Committee positions its executive compensation at or near the median of the range of compensation levels for comparator companies.

Compensation Mix

The Corporation's executive compensation program has five components: base salary, at risk incentive pay (an annual plan and a medium term plan), share options, supplemental pensions and perquisites.

Base Salaries

Since 1996, a broad band approach has been applied to cover base salaries for all management employees, including the executives. The objective is to enhance BC TELECOM's ability to compare itself accurately to the external market. Within the band structure, a base salary range is established for each executive position, based on market information provided to the Committee by outside consultants.

At Risk Incentive Pay

In 1996, the Committee, as part of its annual analysis, asked its outside consultants to consider how the incentive component of executive compensation could be more closely linked to the achievement of longer term strategic objectives — longer than the one year that was inherent in the existing variable reward plan.

It was concluded that, starting in 1997, there should be two components of incentive compensation: one component that is linked to the achievement of annual objectives (the "Annual Variable Reward Plan") and a second component that is linked to the achievement of three year objectives (the "Medium Term Variable Reward Plan").

(i) *Annual Variable Reward Plan*

The Annual Variable Reward Plan is based upon the Balanced Scorecard, which was introduced in 1994 as a measurement tool to ensure rigor in the variable component of the executive compensation plan. The Balanced Scorecard is divided into four quadrants, which ensure that executives set annual objectives that recognize BC TELECOM's three key stakeholders — shareholders, customers, and employees — while also positioning the organization for new revenue growth.

Incentive pay under the Annual Variable Reward Plan is linked to meeting specific objectives in each of these four quadrants. For example, measures of shareholder value include key financial performance indicators such as cost containment, net income and earnings per share. Measures in the customer quadrant include quality of service and customer satisfaction levels, based on extensive monthly surveys of BC TELECOM's residential and business customers conducted by independent third parties. Measures in the employee quadrant include core managerial competencies such as leadership, communication, coaching and development and risk taking, based on the results of opinion surveys and

an annual 360° feedback process. The 360° feedback process provides executives with confidential input on their performance from their peers, customers, direct reports and manager.

A target level of incentive pay under this Plan is based upon a percentage of each executive's base salary. The target level for each executive ranges from a low of 30% of his or her base salary to a high of 60%, dependent upon the size, complexity and scope of their respective portfolios.

At the beginning of each year, specific objectives for each quadrant of the Balanced Scorecard are established for each executive. In addition, stretch objectives are set that, if met, can result in a payout multiplier of up to two times each individual's target level. The objectives, along with their corresponding multiplier, are reviewed and approved by the Committee.

(ii) *Medium Term Variable Reward Plan*

As noted previously, this Plan was introduced in 1997. The objective of the Plan is to strengthen the focus of the executive team on the creation of shareholder value by creating a direct link between the Corporation's longer term strategic plans and objectives and the executives' level of compensation.

The Committee sought the advice of its consultants to determine the appropriate proportion of total compensation to be at risk under this Plan and the appropriate form for payment of the compensation that is earned under the Plan.

Based on the consultant's examination of total compensation in the market, it was concluded that the target level of at risk incentive compensation for an executive under this Plan should range from a low of 20% of his or her base salary to a high of 50% dependent, as with the Annual Variable Reward Plan, on the size, complexity and scope of the executive's portfolio.

At the beginning of each year, a three year plan is established which specifies financial objectives related to shareholder value that are to be achieved by the executive team during the ensuing three year period. The objectives measure — over the three year period — growth in earnings before interest, taxes, depreciation and amortization (EBITDA), net income, revenue, return on investment (ROI) and ranking of growth in total shareholder value compared to comparator companies.

The level of compensation payable at the end of each three year plan depends on the success of the executive team in cumulatively achieving the financial objectives that were set out three years earlier. If the objectives are exceeded, then a payout multiplier will be applied to the executive's target level. The size of the multiplier is dependent on the extent to which the objectives are exceeded. If the objectives are not achieved, there will be no payout. Each year, new three year objectives are established and a new plan commences.

Payout under the first three year plan (for the period 1997-1999) will not occur until the end of 1999 (payment will be made in the first quarter of 2000). Therefore, a two year transition plan was implemented by the Committee under which executives may be compensated under the Plan at the end of 1997 and 1998 on the basis of achievement by the team of one year and two year financial objectives, respectively, approved in 1997.

The compensation under the Medium Term Variable Reward Plan can be paid to the executive in the form of deferred share units ("DSUs") or Common Shares of BC TELECOM Inc. A DSU is a bookkeeping entry, equivalent to the value of a Common Share on the day prior to the grant date, credited to an account to be maintained for the individual executive until retirement. An executive holding DSUs will also be credited with an amount equal to dividends paid on the equivalent number of Common Shares which will be applied to the credit of DSUs at the market price of Common Shares on the day prior to the payment of such dividends. On retirement an executive will be entitled to receive an amount equal to the number of DSUs credited to the executive multiplied by the then current market price of the Common Shares, payable within one calendar year following the year of retirement.

DSU and/or Common Share Ownership Targets have been established by the Board for executives as another means of strengthening the alignment between the long term interests of the Shareholders and

those of the executives. The Committee has concluded that the following targets should be achieved by each executive within five years of the payout under the first three year plan or five years of their appointment as an executive officer, whichever is later.

Executive	Ownership Target (number of DSUs credited to the executive times the market price of a Common Share plus the market value of Common Shares held by the executive)
Chief Executive Officer	2.5 times annual base salary
Senior Vice-President	2 times annual base salary
Vice-President	1 times annual base salary
President of BC TEL Mobility Cellular Inc.	1 times annual base salary

An executive can elect to take payment under the Medium Term Variable Reward Plan in the form of Common Shares once he or she has achieved and continues to hold the Ownership Target appropriate to his or her executive position.

Share Option Plan

The BC TELECOM Share Option Plan gives the Committee the opportunity to grant share options, in tandem share appreciation rights ("SARs") and retention options to executives. The amount of the grant is determined by the individual executive's role in achieving longer-term results. The Share Option Plan creates another direct link between the creation of shareholder value and individual executive performance.

An in tandem SAR granted under the Share Option Plan permits the optionee to receive the value of the appreciation in the share option to which the SAR is associated without exercising the option. The in tandem SAR cannot be exercised unless the option to which it is associated is exercisable. The exercise of the SAR cancels the optionee's right to exercise the associated option and vice versa. The retention options provide the optionee with an additional option to acquire the same number of shares acquired upon exercise of the initial option at a market price determined at the time the initial option is exercised and is exercisable after three years from the date the initial option is exercised, provided that the optionee has continued to hold the initial shares acquired on the exercise of that initial option.

Grants of share options and SARs are based on the market price of BC TELECOM's Common Shares on the day preceding the date of the grant. Options/SARs are granted for terms of up to ten years. Options granted under the Share Option Plan in 1997 are exercisable as to 33⅓% of the shares granted after the first year, 33⅓% of the shares granted after the second year and 33⅓% of the shares granted after the third year.

Supplemental Pension Plan

As part of the overall executive compensation program, the Corporation has established a non-contributory supplementary income plan ("S.I.P.") which provides for an amount to be paid to a retired executive officer as a supplement to the amount payable under the Corporation's contributory pension plan for management. Both these plans are referred to in this circular under Section 3 titled "Defined Benefit Plans".

The cash compensation paid to an executive under the Annual Variable Reward Plan is included in the calculation of the benefit payable under S.I.P. at retirement in the manner described under Section 3 titled the "Defined Benefit Plans". This inclusion aligns the S.I.P. with the Committee's overall compensation philosophy of maintaining a competitive compensation package and ensuring that there are strong links between compensation and the Corporation's strategic objectives.

The Chief Executive Officer

The principles for establishing, measuring and determining the compensation of the Chief Executive Officer are identical to those established for the other executives, including named executive officers. The target level of incentive pay for both the outgoing and the incoming Chief Executive Officers is 60% of base salary under the Annual Variable Reward Plan and 50% under the Medium Term Variable Reward Plan.

In the case of the outgoing Chief Executive Officer, 80% of the amount payable under the Annual Variable Reward Plan was based on financial objectives set at the beginning of the year with the remaining 20% based on personal performance. The financial objectives established under both Plans were exceeded and the Committee elected to apply the maximum two times multiplier to his personal performance. The outgoing Chief Executive Officer was rewarded a pro rated portion of the maximum payout under both Plans.

In the case of the incoming Chief Executive Officer, 60% of the amount payable under the Annual Variable Reward Plan was based on financial objectives, a further 20% was based on organizational objectives related to restructuring of the Corporation and the executive team, and the final 20% was based on personal performance. The objectives were set at mid-year when he became Chief Executive Officer. All of the objectives established under both Plans were exceeded.

Report presented by:

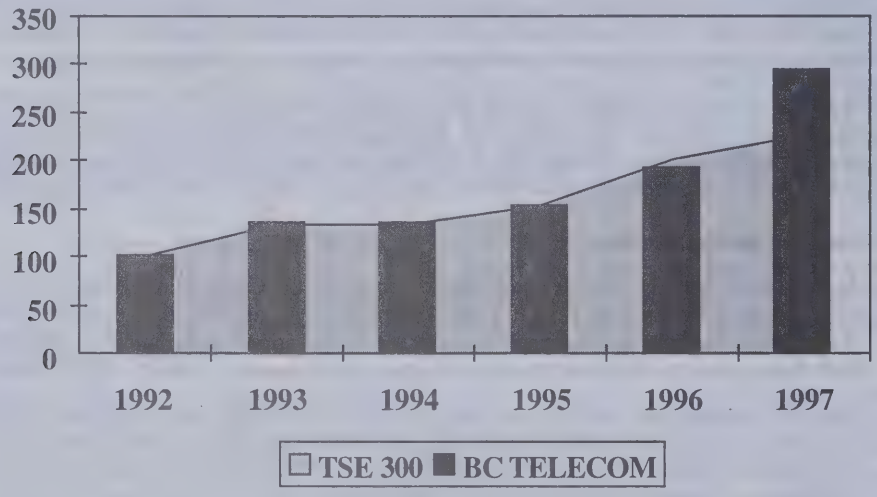
Brian A. Canfield
Gordon F. MacFarlane
G. Nelson (Mel) Cooper (Chair)
Michael T. Masin
David L. Emerson

7. Performance Graph

The following graph compares the cumulative total shareholder return over the past five years ending December 31 for $100 invested in BC TEL ordinary shares (exchanged for BC TELECOM Inc. Common Shares effective May 1, 1993) and the TSE 300 Index. Cumulative total shareholder return reflects both the change in share price and the reinvestment of dividends at the market price on each of the dividend payment dates.

CUMULATIVE TOTAL RETURN ($)

Cumulative Total Return ($)



NOTE: Ordinary shares of British Columbia Telephone Company were exchanged for Common Shares of BC TELECOM Inc. on a one-for-one basis effective May 1, 1993, as part of the arrangement between the Corporation and BC TEL, pursuant to which all holders of ordinary shares of BC TEL became Shareholders of the Corporation.

8. Compensation of Directors

The following table describes the arrangements under which Directors of the Corporation who were not employees were compensated during the year ended December 31, 1997.

Board

Members' Quarterly Fee	$3,500
Members' Per Diem Meeting Fee	$1,000
Chairman's Per Diem Meeting Fee	$1,200

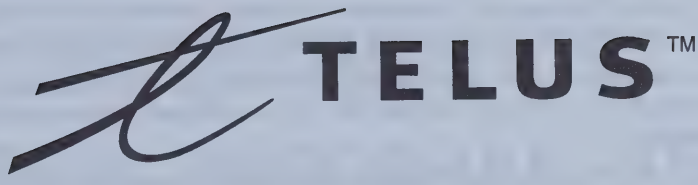
Committees

Members' Quarterly Fee	$ 500
Members' Per Diem Meeting Fee	$1,000
Chairman's Quarterly Fee	$1,000
Chairman's Per Diem Meeting Fee	$1,000

The fees of those Directors of the Corporation who were also Directors of BC TEL were paid as to 50% by each corporation. Directors also received reimbursement for out-of-pocket expenses.

A trend has developed in Canada for corporations to implement share plans that encourage Directors to have a meaningful investment in the corporations they serve. These plans form part of a Director's compensation package, and are intended to enhance the corporation's ability to attract and retain high quality individuals to serve on the Board of Directors. They also serve to satisfy certain shareholders' concerns by encouraging Directors to participate in the growth and development of the corporation and its subsidiaries, thereby strengthening the alignment between the interests of Directors and those of the Shareholders. In 1996, as part of the Corporation's objective of maintaining leading edge governance practices, the Corporation requested outside consultants to provide advice on an appropriate plan for its Directors. The resulting Directors' Share Compensation Plan (the "Directors' Plan") was implemented for fiscal 1997. Under the Directors' Plan, Directors of the Corporation receive an initial grant of $10,000 when he or she becomes a Director and an annual grant of $10,000 (or a pro rata equivalent if the Director is a member for any partial year). The Directors may elect to have any of such grants applied to the purchase by the Corporation in the market of Common Shares or credited as deferred share units ("DSUs"). Directors are also entitled to elect to have all of their meeting fees or retainer fees applied to the purchase of Common Shares in the market or credited as DSUs. A DSU is a bookkeeping entry, equivalent to the value of a Common Shares on the day prior to the grant date, credited to an account to be maintained for the individual Director until retirement. A Director holding DSUs will also be credited with an amount equal to dividends paid on the equivalent number of Common Shares which will be applied to the credit of DSUs at the market price of Common Shares on the day prior to the payment of such dividends. On retirement a Director will be entitled to receive an amount equal to the number of DSUs credited to the Director multiplied by the then current market price of the Common Shares. Under the terms of the Directors' Plan, the Board of Directors is to establish an ownership target for Common Shares and/or DSUs to be held by each individual Director. In 1998 that target was set at Common Shares and/or DSUs valued at $100,000. It is anticipated that this ownership target would be reached by Directors within five years. The number of DSUs credited to February 26, 1998 is indicated in the table under "Election of Directors". An accrual of $380,000 was made in fiscal 1997 with respect to the Directors' Plan.

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TELUS Corporation

INFORMATION RELATING TO TELUS CORPORATION

APPENDIX H — INFORMATION RELATING TO TELUS CORPORATION

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TELUS CORPORATION

ANNUAL INFORMATION FORM

For the Year Ended December 31, 1997

March 17, 1998

TELUS Communications is the third largest facilities based carrier of voice, data and Internet services in Canada. TELUS Communications (Edmonton) is a local exchange carrier providing local and Internet services to customers in Edmonton.

TELUS Mobility is Alberta's leading supplier of wireless mobile communications including cellular, paging and radio systems.

TELUS Advertising and TELUS Advertising (Edmonton) publish white pages and *Yellow Pages** telephone directories and provide other advertising and information services to businesses in Alberta, including *alberta.com*, an on-line directory service.

TELUS Advanced Communications delivers to businesses in Alberta high-speed, fully network managed and integrated data communication solutions based on ATM (Asynchronous Transfer Mode), fibre optic and Internet technologies.

TELUS Marketing provides telephone call centre and market research services to help businesses directly market and support their products and services.

Areas Served

TELUS carries on its business throughout Alberta. Population levels and economic growth influence TELUS' business volumes. Of the three prairie provinces, Alberta has the largest population (2,860,055 persons representing 9.4% of Canada's population as of October, 1997) and the largest geographic area (661,185 square kilometres). Approximately, two-thirds of Alberta's population is located in the Edmonton and Calgary area. Alberta experienced net immigration of 33,948 persons in 1997 (16,481 in 1996).

For 1997, Alberta had an estimated real Gross Domestic Product ("GDP") growth of approximately 5.5% per annum, significantly higher than the growth rate for Canada during the same period. Alberta has an abundance of renewable and non-renewable resources and a well developed infrastructure to provide delivery to domestic and foreign markets. As an export-oriented economy, Alberta has a diversified manufacturing base and an extensive service sector. Its economy retains a relatively large primary sector, concentrated particularly in energy and agriculture. This primary sector accounted for 25.1% of Alberta's GDP in 1996. In 1996, Alberta's secondary sector (manufacturing, construction and utilities) contributed 19.4% of GDP while the service sector contributed 55.5% of GDP. Data by economic sector for 1997 is not available.

Key Operating Statistics

The following table displays certain key operating statistics of TELUS on a consolidated basis for the past five years.

	1997	1996	1995	1994	1993
Network Access Lines (thousands)	1,849	1,766	1,702	1,234	1,194
Long Distance Minutes (millions)	2,139	2,035	2,114	—	—
Cellular 800 Subscribers (thousands)	409	328	238	113	72
Employees[1][2]	8,972	8,858	8,717	6,893	7,513

(1) Employees refer to regular full-time and part-time employees.

(2) Employees have been restated to reflect the impact of discontinued operations.

Range of Services

The primary business of TELUS is the provision of communications services. Voice and data communications, carried over both the public and private wireline networks and wireless networks owned by TELUS, are the major lines of business. TELUS provides communications services to business and residence customers and communications intermediaries, including resellers and facilities based carriers (See "Competition").

Local Services

Local services allow residence and business customers to access their local calling areas and various long distance and cellular networks. Virtually all homes and businesses in Alberta are connected to these networks. Local service revenue accounted for 59% of the total revenues of TELUS during 1997, up from 55% in 1996.

Local access or exchange service is the largest local service category offered by each of TELUS Communications and TELUS Communications (Edmonton) and is generally provided on a flat monthly rate basis. Other local services include establishing and changing customer service selections, Centrex for business customers and public pay telephones.

Competitive long distance carriers operating in Alberta lease interconnecting circuits from TELUS Communications or TELUS Communications (Edmonton) and pay contribution charges to these companies to support local access services offered throughout Alberta. Resellers of long distance services are also subject to contribution charges (See "Regulation Within the TELUS Group — Contribution").

Extended Flat Rate Calling ("EFRC") extends flat-rate calling services beyond the local exchange area. With EFRC, customers in an eligible community may collectively elect by majority vote, for a fixed monthly fee, to extend their community's local calling area to population centres within a distance of 65 kilometres that would otherwise be subject to long distance charges. EFRC coverage is provided to many communities in Alberta.

New technology allows the offering of enhanced local services by TELUS Communications and TELUS Communications (Edmonton). Enhanced services include Call Forwarding, Call Waiting, Name Display, Call Display and Call Answer. TELUS also offers Advanced Intelligent Network services that can be customized to meet the specific needs of individual customers through software changes to network switches and Internet access services *(TELUS PLAnet™)*.

TELUS Mobility provides cellular mobile voice and data service across much of Alberta. In 1997, the number of cellular subscribers increased by 24% over 1996. Paging services are available in several Alberta centres and customer numbers increased by 36% in 1997.

Long Distance Services

Long distance services are either switched service, whereby customers select the destination, or dedicated service, which maintains a permanent connection between two or more points. Long distance services revenue accounted for 34% of the total revenues of TELUS in 1997, down from 38% in 1996.

The largest component of long distance services is message toll services, which are transmitted through copper or fibre-optic cable, microwave relay systems and satellite channels. Message toll services are subject to revenue sharing arrangements with other communications carriers. Long distance services in Edmonton are provided by way of interconnection of TELUS Communications (Edmonton)'s local network with that of TELUS Communications, or other facilities based carriers and resellers (See "Stentor Related Alliances").

TELUS Communications offers its business customers a number of long distance savings plans including: *Advantage Vision*, Advantage VNET*, Advantage Select*, Advantage Toll-Free** and *Advantage Preferred**. In January 1998, TELUS Communications introduced *Advantage Optimum**, which replaced all TELUS *"Advantage"* long distance plans with the exception of *Advantage 900**.

TELUS Communications also offers its residential customers a variety of long distance savings plans including *Your Way Plus Savings™, Your Way Straight Savings™* and *Select Route®*.

Cellular service allows interconnection with communications networks throughout the world (See "Other TELUS Alliances").

Customers may choose from a wide range of data services in accordance with speed and volume requirements. Business customers are increasing their use of data services, such as credit card verification, point-of-sale transactions and electronic data interchange. Residence customers are increasing their use of facsimile transmission and personal computer access. Examples of data services offered by TELUS are, high speed switched data and voice (*Microlink** and *Megalink**), high speed data transfer (*Hyperstream**) and high speed dedicated data service (*Megaroute**).

Advertising and Other Services

This service category represented 7% of the total revenues of TELUS in 1997, unchanged from 1996.

TELUS Advertising and TELUS Advertising (Edmonton) produce, sell and distribute advertising products and services to business and residence customers in Alberta. The product line consists of published telephone directories (including White and *Yellow Pages),* audio text interactive and direct marketing services, infomercials and an on-line directory service called *alberta.com*. These two companies are registered users of the *Yellow Pages* trademark (and associated designs), the *Walking Fingers* symbol and *Talking Yellow Pages* trademarks.

Employee Relations

At the end of 1997, approximately 7,000 full-time and part-time employees and 1,500 temporary and casual members of the total workforce were represented by bargaining units from the International Brotherhood of Electrical Workers ("IBEW"), the Communications, Energy and Paperworkers Union of Canada ("CEP") and the Civic Service Union 52 ("CSU 52"). Unionized employees include clerical, craft and operator services employees. The CSU 52 bargaining unit includes supervisory, marketing and professional employees.

There are two collective agreements between TELUS Communications and the IBEW Local 348 for the bargaining units certified by the Canada Labour Relations Board. The Clerical and Operator Services Agreement has an expiry date of April 30, 1998 and the Craft Agreement expired December 31, 1997. Negotiations began in early 1998 between the parties.

TELUS Communications (Edmonton), and TELUS Advertising (Edmonton) have collective agreements with the IBEW 1007 and the CSU 52, which cover in aggregate approximately 1,700 employees. The IBEW 1007 craft agreement has an expiry date of December 1998, with a provision to reopen the contract to allow negotiations with the TELUS Communications IBEW 348 craft unit for alignment purposes. The CSU 52 clerical/traffic unit agreement with TELUS Communications (Edmonton) has a contract expiry date of December 18, 1998. The CSU 52 also represents supervisory, marketing and professional employees at TELUS Communications (Edmonton) with an contract expiry date of December 1998. The CSU 52 represents approximately 100 employees of TELUS Advertising (Edmonton) with a collective agreement, which expires in December 1999.

TELUS Mobility has a collective agreement with the Communications, Energy and Paperworkers Union of Canada (CEP) representing 450 craft/clerical employees, which expires in May 1999. The unionized employees of TELUS Advertising and TMSI are represented by IBEW bargaining units. The agreement at TELUS Advertising expires in December 1999 and the TMSI agreement expires in October 1998.

IBEW Local 348 made a common employer application in March 1997 to the Canada Labour Relations Board (CLRB) to become the bargaining agent for all TELUS units. As part of the application, the IBEW asked the CRLB to expand the scope of the bargaining unit to include an additional 950 positions. Hearings into the matter commenced in October 1997, with a decision expected in 1999. However, the CRLB determined that TELUS Advertising Services and TELUS Marketing Services were under provincial jurisdiction and would be excluded from the common employer application.

Properties of the Corporation

TELUS' principal properties consist of telecommunications property, plant and equipment and do not lend themselves to description by exact location. As at December 31, 1997, the total investment of TELUS in such properties was recorded at a net book value of $2,649.6 million on a consolidated basis, of which $1,920.8 million is attributable to the asset holdings of TELUS Communications, $416.1 million to those of TELUS Edmonton and $247.8 million to those of TELUS Mobility.

Of the total consolidated investment of TELUS, $2,493 million represented capital assets in the form of land, buildings and communications plant in service. Such plant, located throughout Alberta, includes network facilities, relay and transmission towers, switching equipment, terminal devices, computers, motor vehicles, tools and test equipment, and furniture and office equipment.

With the exception of terminal devices located at customer premises, most of the communications plant and equipment is located on land owned by TELUS. Some buildings, switch centres and relay stations for TELUS' public mobile network are situated on land held under long-term leases. Network facilities are constructed under or along streets or highways pursuant to rights-of-way and on land owned by TELUS.

The properties of TELUS include: (i) office space; (ii) work centres for field service and materials management personnel; and (iii) space for exchange, toll and mobile radio equipment. One office building is encumbered by a mortgage of approximately $2.7 million as at December 31, 1997, assumed from the vendor at the time of purchase. Other communications property, plant and equipment consist of plant under construction and materials and supplies used for construction and repair purposes.

Capital Expenditures

During the previous five years, TELUS made the following capital expenditures.

	1997	1996	1995	1994	1993
Capital Expenditures from continuing operations (millions)	$536	$395	$392	$398	$333

Capital expenditures incurred by TELUS Communications totalled $1,440 million in the five year period. In 1997, capital projects relating to the network ($146 million) included access, transport and switching initiatives. Expenditures for infrastructure ($68 million) included real estate and corporate strategic initiatives. The remaining capital expenditure ($53 million) was incurred for product and service development initiatives including Internet access service.

TELUS Edmonton's capital expenditures for March 1995 to December 1997 were $216 million. Capital projects included basic service expansion, enhanced services, network maintenance, administrative support, integrated information systems, terminal equipment for residence and business customers and land and buildings.

Capital expenditures incurred by TELUS Mobility during the five year period, in the aggregate amount of $289 million, were principally spent on network expansion and switching equipment hardware and software.

Capital expenditures incurred by other TELUS subsidiaries amounted to $109 million over the five year period. Expenditures included TELUS Advanced Communications computer equipment, related software and other equipment purchased, and expenditures in connection with the TELUS Cable Holdings Inc. ("TELUS Cable") multi-media trial. TELUS Advertising and TELUS Advertising (Edmonton) also invested in an integrated sales and production system as well as computer equipment.

Research and Development

In 1997, research and development expenditures of $71 million ($55 million in 1996) were incurred by TELUS, including amounts that TELUS Communications contributed as a member of the Stentor alliance (See "Stentor Related Alliances").

Stentor Related Alliances

TELUS Communications is a member of the Stentor alliance, an association of the major regional Canadian telecommunications companies. This alliance is intended to facilitate the provision of long distance and data services which cross provincial and national boundaries, and to facilitate planning and coordination of the provision of national services. The alliance conducts its operations through three national organizations: Stentor Canadian Network Management ("SCNM"), Stentor Resource Centre Inc. ("SRCI") and Stentor Telecom Policy Inc. ("STPI"). TELUS Communications (Edmonton), as a local exchange carrier, has chosen not to seek membership in SRCI but is a shareholder of STPI. In addition, Stentor Services Inc. ("SSI") was created to hold mutual national assets. Further, SSI's mandate has been expanded to include the provision of certain database services to its shareholders.

In late 1996, SRCI implemented a series of amendments altering the mandate (scope of work activities) and governance of SRCI. Local and local enhanced service development was repatriated from SRCI to the owner companies providing TELUS with full autonomy and control over development of local services. In terms of governance, streamlined decision making changes were implemented with a restructuring of the board of directors of SRCI, which now only consists of BC Tel, Bell Canada and TELUS Communications representatives. All nine Stentor members will continue as shareholders of SRCI and will have access to SRCI's research and development activities and resources.

The Stentor alliance members are parties to a connecting agreement (the "Connecting Agreement"), which defines the terms and conditions of the interconnection of the members' networks and the sharing of revenues from certain communications services.

The Connecting Agreement and the Stentor Settlement Arrangement were revised effective January 1, 1998 to reflect a new Stentor settlement arrangement for data services. The Stentor Settlement Arrangement for data services will be effective for a two-year period ending December 31, 1999, the same ending date as the Stentor Settlement Arrangement for voice services. Like the Stentor Arrangement for voice services, the Stentor Arrangement for data services is intended to encourage Stentor members to reduce costs and to increase profitable revenues. Under the new arrangement for data services, the Stentor member that earns revenue from data services is responsible for the costs of carriage, network access and sales activities incurred by all parties involved in the provision of service.

Other agreements which provide for the sharing of revenues from interconnecting telecommunications services include separate agreements between the Stentor alliance members and American Telephone and Telegraph Company ("AT&T"), MCI International Inc., Sprint Communications Company ("Sprint"), Teleglobe Canada Inc. ("Teleglobe") and others. TELUS Communications' share of revenues from such agreements is determined by the Stentor Settlement Arrangement.

TELUS Communications holds an 11.0% equity interest in Alouette Telecommunications Inc. ("Alouette"). The majority of the remaining interest in Alouette is held by other Stentor alliance members. Alouette's wholly owned subsidiary, Telesat Canada, operates satellites which transmit telecommunications data, radio, and television signals nationally.

In 1992, the Stentor alliance members reached agreement with MCI Telecommunications Corporation and MCI Network Technologies, Inc. (collectively "MCI") which allowed the members access to intellectual property and to jointly develop and offer advanced network-based services. Amendments and additional agreements were made in 1995 to allow Stentor members continued access to MCI intellectual property and offer existing and future MCI based services through an annual licensing fee arrangement. These agreements also permitted Stentor members to distribute Concert* global communications products and services in Canada. In 1996, additional changes were made to incorporate conferencing services. While the initial terms of these agreements will be completed in 1998, they essentially continue on an annual basis subject to the termination provisions.

Other TELUS Alliances

TELUS Mobility is a shareholder in Mobility Personacom Canada Ltd. ("Mobility Canada"), the shareholders and franchise members of which operate cellular and paging networks across Canada and offer services to national accounts. Mobility Canada members also share in funding the development of new wireless services.

In December 1995, Industry Canada announced that Mobility Canada was one of four applicants awarded licences to deliver services using digital wireless personal communications services technology ("PCS"). Mobility Canada members were awarded 10 MHz PCS licences, entitling them to provide PCS in their regional serving areas across Canada (See "Competition — Wireless").

In May 1997, TELUS sold its 50% interest in Telecential Communications to its former partner Vision Networks NV (formerly KPN Kabel B.V.) for $406.8 million which resulted in an after tax gain of $123.9 million.

TELUS and IBM Canada finalized an agreement to provide fully integrated computer and communications solutions to Alberta businesses. The new alliance builds on the strengths of both companies, such that IBM will

deliver all aspects of the computing requirements and TELUS will provide network services to meet overall customer needs. The two companies agreed to do joint marketing and to consider each other as a preferred supplier. As part of this restructuring of the alliance, TELUS sold its 50% partnership interest in ISM Alberta to IBM Canada, receiving in July proceeds of $24.9 million.

Legal Proceedings

There were no material legal proceedings as of December 31, 1997.

Restrictions on Ownership and Operations

Ownership restrictions for the Canadian telecommunications industry are included in the *Telecommunications Act* (Canada) (the "*Telecommunications Act*"). The *Telecommunications Act* implements the policy of Canadian control of Canadian carriers by providing that 80% of the voting shares of a carrier subject to this legislation must be owned and controlled by Canadians and that not less than 80% of the members of a board of directors must be Canadians. In October 1994, the Canadian Telecommunications Common Carrier Ownership and Control Regulations (the "Regulations") were adopted under the *Telecommunications Act*. The Regulations stipulate that each corporate parent of a telecommunications carrier must (i) own at least 66⅔% of the issued and outstanding shares of the carrier; (ii) the voting shares be at least 66⅔% owned by Canadians and not otherwise controlled by non-Canadians; and (iii) monitor and control the level of foreign ownership in order to maintain its status as a qualified carrier holding corporation. The Regulations give TELUS, as a carrier holding corporation, the power to elicit information from its voting shareholders as to their identity and whether they are Canadian. In addition, under the Regulations, TELUS has the power to refuse to register a transfer of its common shares to a non-Canadian, to force a non-Canadian to sell his common shares and suspend the voting rights attached to such common shares, if that persons' holdings would jeopardize TELUS' status as a qualified corporation. These powers also permit TELUS to sell any non-Canadian common shares on that person's behalf. To the best of TELUS' knowledge, the level of non-Canadian ownership of its common shares was less than 14% at December 31, 1997.

TELUS Mobility is also regulated by federal licensing requirements. Pursuant to the *Radiocommunication Act* (Canada), Industry Canada requires operating licences for the provision of cellular services, paging services, air-to-ground services, and private and shared radio communications services. Licences held by TELUS Mobility with respect to cellular services are scheduled to expire on March 31, 2001 and on April 30, 2001 for 2 GHz PCS. At this time, TELUS Mobility knows of no reason why its current licences will not be renewed as they expire.

Ownership restrictions for the Canadian broadcasting industry, which apply to the TELUS Multimedia trial, are reflected in the *Broadcasting Act* (Canada) (the "*Broadcasting Act*"). The *Broadcasting Act* declares, as part of the broadcasting policy for Canada, that the Canadian broadcasting system shall be effectively owned and controlled by Canadians. To give effect to this policy, the federal cabinet has issued directives to the CRTC, stating that a broadcasting license may not be issued to an applicant that is a non-Canadian or is controlled by a non-Canadian. A corporation applying for a broadcasting license qualifies as being Canadian if 80% or more of its directors and voting shareholders are Canadian. A subsidiary corporation qualifies as being Canadian if the parent corporation is incorporated in Canada, Canadians beneficially own and control not less than 66⅔% of the voting shares of the parent and the parent corporation does not exercise control over or influence any programming decisions of the subsidiary. The federal cabinet has also issued a directive stating that broadcasting licences may not be granted to provincial governments, their agents or, generally speaking, to municipal governments.

Regulation Within the TELUS Group

The Canadian Radio-television and Telecommunications Commission ("CRTC") regulates TELUS Communications, TELUS Communications (Edmonton) and TELUS Mobility under the *Telecommunications Act*. TELUS Communications and TELUS Communications (Edmonton) have traditionally been regulated on an earnings (rate base/rate of return) basis, whereby the CRTC establishes the allowed rate of return, approves tariffs, and approves interconnection and working agreements with other carriers. In 1995, the CRTC established a split rate base environment for TELUS Communications and the other federally regulated

telephone companies, excluding TELUS Communications (Edmonton), under which their operations were split into Utility and Competitive segments. This type of regulation, which subjects only the Utility segment to earnings regulation, was established for an interim period as the communications industry moved to a competitive environment. TELUS Communications, earnings regulation was replaced by price cap regulation on January 1, 1998 (See "Regulation Within the TELUS Group — Price Cap Regulation"). The CRTC has also forborne from the regulation of a number of services including long distance services, Internet and some data services (See "Regulation Within the TELUS Group — Forbearance"). For regulatory treatment of TELUS Communications (Edmonton) earnings, refer to the section entitled "The Directive".

TELUS Mobility is regulated for all cellular, paging and personal communications services. Telecom Decision CRTC 96-14 confirmed forbearance from tariff regulation although TELUS Mobility is subject to regulation with respect to network access and privacy issues, interconnection issues and agreements with foreign carriers.

TELUS Cable, which is conducting a multimedia trial through an operating division, TELUS Multimedia, is regulated under both the *Telecommunications Act* and the *Broadcasting Act.* TELUS Multimedia requires approval as a broadcast distribution undertaking to conduct market and technical trials in specific communities in Calgary and Edmonton.

TELUS Advertising and TELUS Advertising (Edmonton) are not Canadian carriers and, therefore, are not subject to regulation under the *Telecommunications Act*. However, a portion of TELUS Advertising's earnings related to directories distributed within TELUS Communications' operating territory was included in TELUS Communications' earnings in setting the rates to initiate price cap regulation on January 1, 1998. For regulatory treatment of TELUS Advertising (Edmonton) earnings, refer to the section entitled "The Directive".

Regulatory decisions, and the impacts of such decisions, related to the regulation of all telecommunications and broadcast carriers are numerous and complex. The following sub-sections summarize those regulatory issues, which in the opinion of TELUS, currently have or could have a material financial impact on TELUS.

The Directive

In October 1994, pursuant to the *Telecommunications Act*, the Governor General in Council issued Order in Council P.C. 1994-1779 entitled "Direction to the CRTC on the Regulation of Edmonton Telephones Corporation (ETC) and ED TEL Communications Inc." (the "Directive"). The Directive specified certain terms and conditions on which the CRTC will regulate the local exchange operations of TELUS Communications (Edmonton) until October 1998. The key elements of the Directive include:

(i) approval of an allowed return on equity (ROE) in the range of 11.5% to 13.5%;

(ii) recovery of shareholder entitlements, within the revenue requirement of TELUS Communications (Edmonton);

(iii) integrality of the operations of TELUS Advertising (Edmonton) to TELUS Communications (Edmonton) such that revenues and expenses associated with the white pages directory and 18% of *Yellow Pages* revenue less tariffed business charges are included in the calculation of TELUS Communications (Edmonton) allowable revenue requirements; and

(iv) a rate stabilization reserve of ETC at the end of 1993 in the common equity of TELUS Communications (Edmonton).

TELUS Communications (Edmonton) was not a party to the price cap regulation proceeding. However, the CRTC has initiated a proceeding to examine the regulatory framework for TELUS Communications (Edmonton) when the Directive expires.

Shareholder entitlement is the amount permitted by the Directive to be included as an additional cost of service in the revenue requirement of TELUS Communications (Edmonton). In 1997 TELUS Communications (Edmonton) paid $21.0 million in shareholder entitlement to TELUS Edmonton.

In addition to a formula specified in the Directive, the return component of the TELUS Communications (Edmonton) shareholder entitlement is guided by the terms set out in Telecom Decision CRTC 93-18. To date,

no recovery schedule of TELUS Communications (Edmonton) shareholder entitlement has been approved by the CRTC.

TELUS Communications (Edmonton) has not applied for general rate relief while under the earnings regulation environment maintained by the Directive.

Income Tax Decisions

In an advance income tax ruling, Revenue Canada confirmed that, upon privatization in 1990, the telephone assets would be deemed to have been acquired at the greater of the fair market values of those assets and their original costs. Accordingly, additional tax deductions ("ATDs") in excess of the net book value of the assets at privatization, are available to TELUS Communications. To date, these deductions have been used to reduce income tax expense in excess of the large corporation tax and have resulted in lower rates for subscribers than would otherwise have been the case. The CRTC determined in Telecom Decision CRTC 93-9 ("Decision 93-9") that TELUS should receive a portion of the benefits arising from the utilization of the ATDs.

In late 1996, TELUS Communications settled pending reassessments from Revenue Canada in respect of the 1990 and 1991 taxation years. As a result, total shareholder entitlement was established at $138.5 million. In 1997, the CRTC determined the impact of the settlement on future years' shareholder entitlement and approved the recovery of the remaining balance by way of payments of $32.0 million in 1997 and $32.5 million in 1998.

Split Rate Base Regulation

Telecom Decision CRTC 95-21 ("Decision 95-21") set the terms for splitting the rate bases of the telephone companies into a Utility segment and a Competitive segment for January 1995 to December 1997. Upon the splitting of the rate bases, only the Utility segment was left subject to earnings regulation. A principal element of the split rate base regime was the three-step rate rebalancing process. For TELUS Communications, the CRTC granted a $2 per month local rate increase for both residential and business customers effective January 1996 and January 1997. In December 1997, the CRTC granted the third step of rate rebalancing, an increase of $1.10 per month for residential customers only, which became effective on January 1, 1998. This increase was effective with the setting of the "going in" rates under price cap regulation. In early March 1998 the CRTC in its final decision on the implementation of price cap, allowed an additional $0.23/line/month on top of the $1.10 interim increase approved in December 1997. TELUS was given the choice or recovering the money retroactive to January 1, 1998 or adjusting the price cap formula by an amount equivalent to the $0.23. The CRTC further directed in Decision 95-21 that the revenues from the local rate increases be used to reduce contribution charges (See "Regulation Within the TELUS Group — Contribution").

In February 1996, in Telecom Decision CRTC 96-4 ("Decision 96-4"), the CRTC approved, on an interim basis, increases to local service rates (over and above those permitted for rebalancing) by TELUS Communications and consolidation of the company's seven rate groups into three for residence and business services. The CRTC also confirmed a ROE range of 10.25% to 12.25% for the Utility segment of TELUS Communications.

In Telecom Decision CRTC 96-13 ("Decision 96-13"), the CRTC approved on a final basis the 1996 interim rate increases granted to TELUS Communications in Decision 96-4. The CRTC also approved the consolidation of rate groups to one each for residential and business customers. The rate changes approved in Decision 96-13 generated $43 million in revenue for TELUS Communications in 1996 and $49 million in 1997. Furthermore, Decision 96-13 permitted TELUS Communications to shorten the lives of certain assets, which largely resulted in an additional depreciation expense of $96.4 million in 1997.

For TELUS Communications (Edmonton), the CRTC granted a $2 per month local rate increase for residential and business customers effective August 1996 and a $2 per month local rate increase for residential customers only effective August 1997. The third step of rate rebalancing has yet to be determined.

Price Cap Regulation

In 1994, the CRTC determined that rate base/rate of return regulation should be replaced with a new form of regulation (i.e., price cap regulation) to be effective January 1, 1998. The price cap mechanism focuses on

prices and thereby creates an incentive for the telephone companies to become more efficient. Price cap regulation requires telephone companies to first meet a productivity target set by the CRTC which benefits subscribers by keeping prices down. If companies can exceed this productivity target shareholders may earn higher returns. Price cap regulation also allows TELUS the flexibility to better respond to competition and consumer needs. In May 1997, the CRTC issued Telecom Decision CRTC 97-9 ("Decision 97-9"). This decision established the framework for price cap regulation and the terms and conditions a four-year price cap plan. The principal reforms instituted by Decision 97-9 as they relate to TELUS Communications are as follows:

(i) **Price Cap Formula**: For each year that price cap regulation is in effect, the prices for a basket of capped services will be subject to the Price Cap Index (PCI). The PCI formula requires that the aggregate of prices for basketed services is constrained to the annual changes in the rate of inflation (GDP-PI) minus an offset of 4.5% (productivity offset factor), and may be adjusted for limited exogenous factors arising from events which are beyond the company's control.

(ii) **Baskets and Pricing Flexibility:** Three sub-baskets (basic residential local service, single and multi-line business local service, and other capped services) have been established with special pricing rules associated with each basket.

(iii) **Rate Rebalancing and Contribution Freeze:** The CRTC allowed for a further round of rate rebalancing effective January 1, 1998 "up to a maximum" of $3 per month for basic residential local service. The CRTC also indicated that rate-rebalancing increases would not be implemented if toll contribution rates were to be reduced below a 2 cent per minute target rate.

(iv) **Rules to Set Going-In Rates (Depreciation, ROE, and Amortization)**: For the purposes of setting going-in rates the CRTC allowed TELUS Communications to propose changes to depreciation life characteristics in a follow-up proceeding. The CRTC required that the company's Depreciation Reserve Deficiency (DRD) be amortized over the remaining life of the assets. The CRTC also decided that, other than shareholder entitlement for TELUS Communications, the remaining balances of all regulatory deferred charges should be consolidated in 1997 and re-amortized over a five-year period beginning in 1998.

(v) **Continued Regulatory Burdens**: The telephone companies are required to maintain and report activities such as split rate base results, depreciation records and semi-annual financial reports of actual results. Tariffs are still required — even for uncapped services unless they are forborne. Construction program reviews will resume in the Year 2000. Intercorporate transactions for the Utility segment must still be filed. These activities are not applicable to competitors.

In December 1997, the CRTC released an interim decision with respect to the implementation of price cap regulation. The major highlights of Telecom Decision CRTC 97-18 are:

(i) **Rate Rebalancing**: The CRTC set the rate for TELUS Communications' residential service at $22.11 per month per line, which reflects an allowed increase of $1.10 per month per line effective January 1, 1998. The overall financial impact of this to TELUS Communications in 1998 is an estimated $11.5 million in additional revenue or $3.4 million net of entrant contribution charges.

(ii) **Baskets:** The proposed TELUS allocation of services was essentially approved with the primary exception being the inclusion of local private lines in the "Uncapped" services classification.

(iii) **Portable Subsidy Mechanism:** The CRTC decided that the portable subsidy mechanism, (designed to encourage the provision of telephone service outside the urban city centres), will be payable in all areas, excluding urban core areas.

(iv) **Contribution**: All wireless service providers including TELUS Mobility must now pay a surcharge per interconnecting trunk.

Forbearance

In 1996 and 1997 the CRTC exercised its powers to forbear from the regulation of a number of services. These services include:

- frame relay and packet data services,
- Internet access services,
- electronic messaging and information services,
- certain routes of high capacity services and digital data services, and
- long distance services.

In Telecom Decision CRTC 97-19, the CRTC forbore from regulation of the long distance voice market and removed the prohibition against bundling of terminal equipment with other services offered by TELUS Communications including toll and private line.

In Telecom Decision CRTC 97-20, the CRTC found that forbearance is warranted only on certain routes for specific services. For TELUS, this means that interexchange private line services offered in both directions between Calgary and the U.S. border, Calgary and Edmonton, Calgary and Vancouver and Calgary and Toronto will no longer be subject to rate regulation. Forbearance on these routes becomes effective March 18, 1998.

As a result, TELUS Communications will no longer require prior CRTC approval of tariffs and rates for these services. There are, however, some conditions on the forbearance granted. These conditions include maintenance of customer confidentiality protections, the availability of rate schedules and the requirement to file intercarrier working agreements for approval by the CRTC.

Contribution

Currently, all interexchange service providers that make use of the public switched network ("PSTN") are required to pay contribution charges towards the local access shortfall. The contribution charge is applied on all Alberta originating and terminating minutes, including the minutes originated or terminated in Edmonton.

In Telecom Order CRTC 97-590, the CRTC decided to broaden the base of contribution eligible services, effective January 1, 1998, as follows:

(i) Cellular and other wireless service providers will pay contribution through a surcharge on the interconnecting circuits which they lease to access the PSTN.

(ii) Line side connections used by alternate providers of long distance service for internal administrative use and directly connected to a service provider's interexchange network will be subject to contribution charges.

(iii) Interexchange data traffic, which connects to the PSTN (both line-side and trunk-side), will be subject to per minute contribution.

(iv) Paging and Internet services will not be subject to contribution charges.

The overall effect of this decision is to reduce entrant contribution discounts and increase the contribution payments to TELUS Communications and TELUS Communications (Edmonton).

Local Competition

In 1994, the CRTC determined that increased competition in the local telecommunications market was in the public interest and determined that restrictions on entry into the local market should be removed. In May 1997, the CRTC issued Telecom Decision CRTC 97-8 ("Decision 97-8"), which allowed local facilities-based competition to begin on January 1, 1998. The local competition decision allows competitors to interconnect with TELUS Communications, gain unbundled access to essential facilities and enter high cost serving areas through portable contribution subsidies. The CRTC did not order extensive unbundling and resale discounts. Therefore, the roll-out of local competition should reflect a facilities based competition model,

whereby new entrants will be more likely to construct their own facilities. Decision 97-8 applies only to TELUS Communications at this time. The applicability of local competition to TELUS Communications (Edmonton) is the subject of a separate CRTC proceeding.

Co-location and Local Number Portability

In 1994, the CRTC determined that co-location and local number portability are required for effective competition to develop. Co-location, both virtual and physical, of competitor's transmission facilities is now available. In addition, in late 1997, preparation commenced for a field trial of local number portability ("LNP") to be conducted in Calgary in 1998. However, the issue of the recovery mechanism for the costs of LNP has not yet been addressed by the CRTC.

Broadcast

In 1996, the CRTC confirmed the use of licensing practices to support the objectives of the *Broadcasting Act* (Canada) and reiterated the priority carriage of licensed Canadian programming on cable television distribution systems. In December 1997, the CRTC approved new broadcasting distribution regulations, which came into effect in January 1998.

In May 1997, the CRTC set the following rules with respect to the commercial entry by telephone companies ("telcos") into cable television service:

(i) telcos can apply as early as June 16, 1997 for a commercial cable license; and

(ii) licences for telco cable activity can be effective as early as January 1, 1998 provided tariffs are filed and in place for local interconnection and unbundling by January 1, 1998 and tariffs are in place for co-location by January 1, 1998.

Broadcasting Decision CRTC 97-193 and Telecom Decision CRTC 97-12 approved licences for TELUS Cable to carry on broadcasting distribution undertakings under the *Broadcasting Act* for the purpose of conducting market and technical trials in communities located in Calgary and Edmonton. The licences expire May 31, 1999 and permit TELUS Cable to distribute interactive programming services of an entertaining or informative nature including video on demand to a limited number of subscribers in Calgary and Edmonton. As conditions of these licences, TELUS Cable must make a total contribution of $200,000 per annum, to an independently administered production fund in support of Canadian programming and to the production of community programming.

As a result of supplier delays regarding the delivery of digital equipment, for the implementation of the trial, the CRTC has expressed concern that TELUS is not in compliance with the terms of the licences. To date no formal proceedings have been initiated by the CRTC and TELUS expects this issue to be resolved before the end of the second quarter of 1998.

Wireless

The regulatory regime for cellular and personal communications services ("PCS") providers, including TELUS Mobility, continued to evolve in 1997 and further changes are expected in 1998. The issue of mandated resale and sharing of cellular services and PCS was rejected by the CRTC in Telecom Order 97-1797. However, a decision in Public Notice 96-18, addressing interconnection, co-location, unbundling and equal access for wireless networks, is still pending. Also pending are decisions dealing with the joint marketing and bundling of cellular with wireline services (Public Notices 97-14 and 97-21). Decisions on these two issues are expected in 1998.

Competition

Currently, competition exists in virtually every market and service offered by TELUS. Most notably, TELUS Communications has experienced significant competition in its long distance business. The following are TELUS' competitive services:

Long Distance

TELUS has experienced long distance competition since 1993. TELUS Communications had an estimated market share at a 66% level overall as of December 31, 1997 (68% as of December 31, 1996). Competitors include AT&T Canada Long Distance Services Company ("AT&T"), Sprint Canada Inc. ("Sprint") and fONOROLA Inc. ("fONOROLA").

Competitors in long distance services have expanded through a combination of methods, including acquisitions, business alliances, construction of alternative network facilities, price reductions and repackaging of service offerings. Price reductions driven by market forces have reduced operating margins for long distance voice services.

Competitors, other than the Stentor members such as TELUS Communications, are not required to file tariffs for review and approval by the CRTC. The forbearance provided through Decision 97-19 results in more equitable treatment for TELUS Communications, when compared with other long distance competitors. However, competitors will continue to have a competitive advantage over TELUS Communications, which will have to file rates with the CRTC, when bundling forborne services (toll services) with tariffed services.

Local

Competition in the local services market was approved in May 1997 by the CRTC in Decision 97-8 with an effective date of January 1, 1998. Market share loss is minimal at this time. However, a number of parties have declared their intent to operate as a Competitive Local Exchange Carrier. In Alberta, MetroNet Communications Group Inc. ("Metronet") is the only company, to date, that has approved tariffs.

Resale, an alternative form of local competition of primary exchange service, has been available in TELUS Communications' serving area for several years. Resale of the same service commenced in the TELUS Communications (Edmonton)'s serving area in October 1997.

TELUS Communications and TELUS Edmonton are also Internet service providers in Alberta with 68,000 residential and business customers as at the end of December 1997.

Data and Private Line Services

TELUS Communications, TELUS Communications (Edmonton) and TELUS Advanced Communications are subject to competition in the provision of data and dedicated long distance voice services from alternative facilities-based carriers. Alternative facilities-based competitors own and operate their own facilities and transmission systems, carry their own traffic and may interconnect with their network. These competitors also present the risk of "by-pass", by redirecting carriage of long distance traffic onto their network facilities, away from the public switched telephone network owned by TELUS. The major competitors for data and private line services include AT&T, Sprint, and Metronet.

Wireless

TELUS Mobility is licensed to provide cellular and PCS service in Alberta. Rogers Cantel Mobile Communications Inc. ("Cantel") is licensed to provide cellular and PCS services throughout Canada, including Alberta, and is a major competitor for the services of TELUS Mobility. Additional competition developed throughout 1997 with the launch of PCS by Clearnet. The introduction of PCS, coupled with new local competition rules as a result of Decision 97-8, may result in the emergence of cost-effective competition in local services between wireless and wireline services providers. Furthermore, Clearnet Communications Inc., a provider of specialized mobile radio ("SMR") services, may enter the Alberta market to offer enhanced cellular-like SMR services targeted towards business applications.

TELUS Mobility also competes with more than 10 national, regional and local-paging companies for paging customers in Alberta and with major equipment manufacturers for private radio engineered systems.

Industry Canada announced its intention to allocate additional spectrum to wireless providers, which may result in increased competition for both wireless and wireline service providers. In November 1997, Industry Canada received comments on its proposal to allocate new spectrum through the use of auctioning. Finalization of auction policy is expected in 1998 and may be used for the allocation of new spectrum for commercial purposes.

Advertising and Other Services

Within Alberta, there is direct competition for TELUS Advertising and TELUS Advertising (Edmonton) advertising services and for telephone directory publication in specific markets. Indirect competition includes specialty directories, newspapers, magazines, direct mail and other print media, as well as electronic media including television and radio. Competition has intensified for TELUS Advertising and TELUS Advertising (Edmonton) as the CRTC, in late 1996, directed the telephone companies, including TELUS Communications, to provide non-confidential customer listing information for the purpose of compiling, producing, publishing and distributing independent telephone directories.

Other Emerging Competitive Services

Over the longer term, there are a number of factors that will increase competition in the communications industry. Increased competition may result from convergence of cable television, satellite, computer, wireline and wireless technology. In addition, competition is also expected in new markets. For example, in August 1997, Stentor filed comments with the CRTC regarding Local Pay Telephone competition in Canada for which a decision is pending. Additionally, competition may be affected by international developments, the formation of new business alliances and customer demands for new or repackaged services.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Five Year Data

	1997	1996	1995	1994	1993
	(millions except per share amounts)				
Operating Revenues					
Local Service[1]	$1,195.1	$1,028.7	$ 797.6	$ 539.4	$ 472.2
Long Distance Service[1]	676.3	698.6	709.7	713.7	691.8
Other[2]	148.4	133.0	127.5	94.0	94.2
	$2,019.8	$1,860.3	$1,634.8	$1,347.0	$1,258.2
Operating Expenses	$1,599.0	$1,452.1	$1,298.7	$1,035.4	$ 966.4
Interest and Other	$ 98.0	$ 133.2	$ 114.5	$ 87.1	$ 104.9
Income Taxes	$ 168.1	$ 8.1	$ 17.3	$ 6.2	$ 5.3
Income from continuing operations before extraordinary item	$ 154.7	$ 266.9	$ 204.3	$ 218.4	$ 181.7
Discontinued operations	$ 127.3	$ (24.3)	$ (13.5)	$ (6.7)	$ (1.2)
Income before extraordinary item	$ 282.0	$ 242.6	$ 190.8	$ 211.7	$ 180.5
Extraordinary item	$ (285.2)	—	—	—	—
Net Income	$ (3.2)	$ 242.6	$ 190.8	$ 211.7	$ 180.5
Earnings per Common Share continuing operations[3]	$ 1.07	$ 1.87	$ 1.46	$ 1.57	$ 1.30
Earnings per Common Share	$ (0.02)	$ 1.70	$ 1.36	$ 1.52	$ 1.30
Dividends Declared per Common Share	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.92
Total Assets[4]	$4,235.2	$4,404.0	$4,571.8	$3,562.5	$3,313.6
Long-Term Debt[5]	$1,295.9	$1,777.6	$2,054.4	$1,187.4	$1,108.9
Shareholders' Equity	$2,297.4	$2,022.4	$1,848.3	$1,759.5	$1,667.3

Certain comparative financial information has been reclassified to conform with the 1997 presentation. Effective January 1, 1997 TELUS adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Prior years' information for this change have not been restated. The effect of recording this income tax asset increases the non-cash tax expense in 1997 and future years but does not impact income tax payments.

For a detailed description of the extraordinary item related to an asset write-down, see note 6 of TELUS Corporation's 1997 Audited Financial Statements.

(1) Local service and long distance service revenues are generated by TELUS Communications, TELUS Communications (Edmonton) and TELUS Mobility.

(2) Other revenues are comprised primarily of advertising revenue, drawdowns of the rate stabilization reserve for 1993, rental revenue for equipment, amortization of Individual Line Service government grants, interest on overdue accounts, amortization of finance income on leases, gains/losses on sale of telephone plant, revenues from the distribution of cellular equipment by Canadian Mobility Products, a division of ATI.

(3) Basic and fully diluted.

(4) Includes Sinking Fund asset and future income tax asset.

(5) Includes current portion of long-term debt.

Quarterly Financial Data

Unaudited quarterly financial data for 1997 and 1996 are as shown below.

	Quarter Ended									
	March 31		June 30		September 30		December 31		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	(millions except earnings per share amounts)									
Operating Revenues	$484.3	$449.6	$502.2	$454.1	$498.2	$460.4	$ 535.1	$496.1	$2,019.8	$1,860.3
Income from continuing operations before extraordinary item	$ 41.2	$ 61.5	$ 35.3	$ 62.2	$ 42.1	$ 72.3	$ 36.1	$ 70.8	$ 154.7	$ 266.9
Discontinued Operations	$121.7	$ (4.8)	$ 1.1	$ (5.5)	$ 5.8	$ (3.0)	$ (1.3)	$(10.9)	$ 127.3	$ (24.3)
Income from before extraordinary item	$162.9	$ 56.7	$ 36.4	$ 56.7	$ 47.9	$ 69.3	$ 34.8	$ 59.9	$ 282.0	$ 242.6
Extraordinary Item	—	—	—	—	—	—	$(285.2)	—	$ (285.2)	—
Net Income	$162.9	$ 56.7	$ 36.4	$ 56.7	$ 47.9	$ 69.3	$(250.4)	$ 59.9	$ (3.2)	$ 242.6
Earnings Per Common Share continuing operations[1]	$ 0.29	$ 0.43	$ 0.24	$ 0.44	$ 0.29	$ 0.51	$ 0.25	$ 0.49	$ 1.07	$ 1.87
Earnings Per Common Share[1]	$ 1.13	$ 0.40	$ 0.25	$ 0.40	$ 0.33	$ 0.48	$ (1.73)	$ 0.42	$ (0.02)	$ 1.70

(1) Basic and fully diluted.

(2) 1996 data has not been restated for the change in accounting policy with respect to income taxes (see above).

Dividend Policy

TELUS declared quarterly dividends commencing with the period October 4 to December 31, 1990. Payments are made on or about the 15th day of the month following the end of each quarter. Four quarterly dividends of $0.22 per common share were paid in 1991. From January 15, 1992 to January 15, 1998, quarterly dividends of $0.23 per common share were paid. On February 10, 1998, the Board of Directors declared a further quarterly dividend of $0.23 per common share, payable on April 15, 1998.

MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to TELUS' "Management Discussion and Analysis" on pages 32 to 44 of the printed version of the 1997 Annual Report to the Shareholders which are incorporated herein by reference herein.

MARKET FOR SECURITIES

TELUS' common shares are listed on the Toronto, Montreal and Alberta stock exchanges. The stock symbol has been "T" since October 21, 1996 (formerly "AGT").

In July 1997, TELUS announced that the TELUS Dividend Reinvestment and Share Purchase Plan and the TELUS Employee Share Purchase Plan would purchase shares on the open market, instead of issuing new shares out of treasury. Beginning with the October 15, 1997 dividend payment, TELUS terminated a 5% discount from the Average Market Price for shares purchased from treasury for dividend reinvestment.

Following the sale of Telecential, it was determined that the proportion of equity in the TELUS' capital structure should be reduced and that the purchase of common shares would be an advantageous use of TELUS funds. The Toronto Stock Exchange and the Montreal Exchange accepted a TELUS Normal course issuer bid, which permits TELUS to purchase during the period August 27, 1997 to August 26, 1998 up to 7.5 million shares for cancellation, being approximately 5% of the total number of common shares outstanding. As of December 31, 1997, 7,400 shares were repurchased at an average cost of $28.23 per share.

DIRECTORS AND OFFICERS

Directors

The names, municipalities of residence, offices held with TELUS, principal occupations of the directors of TELUS, and the year in which each director was first elected to the board of TELUS or was appointed to the Commission, are as set out below. At its annual meeting held on April 29, 1997, these directors were elected to serve until the next annual meeting of shareholders of TELUS or until a successor was elected or appointed.

Name, Municipality of Residence and Year First Elected or Appointed	Principal Occupation
Roy A. Bickell Grande Prairie, Alberta 1980	President, Agrafibre Industries Inc.
R. John Butler, Q.C.[1] Edmonton, Alberta 1995	Counsel, Bryan and Company (law firm)
Harley N. Hotchkiss Calgary, Alberta 1991	Private Investor
Norm Kimball Calgary, Alberta 1991	President, L & N Investments Ltd. (private holding company)
Richard J. LeLacheur Edmonton, Alberta 1991	Chairman, Workers' Compensation Board — Alberta
Jack A. MacAllister Castle Rock, Colorado 1992	Chairman Emeritus, U.S. West, Inc. (telecommunications company)
Joanne L. McLaws[1] Calgary, Alberta 1990	Vice-President, Nesbitt Burns Inc. (brokerage firm)
Harold P. Milavsky[1] Calgary, Alberta 1991	Chairman, Quantico Capital Corp. (investment company)
Walter B. O'Donoghue, Q.C. Calgary, Alberta 1991	Partner, Bennett Jones (law firm)
Esther S. Ondrack[1] Edmonton, Alberta 1990	Senior Vice-President and Secretary, Chieftain International, Inc. (oil and gas company)
James S. Palmer, Q.C. Calgary, Alberta 1995	Chairman, Burnet, Duckworth & Palmer (law firm)
George K. Petty Edmonton, Alberta 1994	President and Chief Executive Officer, TELUS Corporation

Name, Municipality of Residence and Year First Elected or Appointed	Principal Occupation
Ronald P. Triffo[1] Edmonton, Alberta 1995	President, Stanley Technology Group, Inc. (engineering firm)

Note:

(1) Member of Audit Committee.

All of the directors of TELUS have held the principal occupations set forth above or executive positions with the same companies or firms referred to, or with affiliates or predecessors thereof for the past five years except as follows: Roy A. Bickell was Vice President, Operations, Alberta for Ainsworth Lumber Co. Ltd. from October 1993 to October 1996, and from December 1991 to July 1994 he was a forestry consultant; Joanne L. McLaws was a Vice-President at Burns Fry Limited from November 1991 to November 1994; Harold P. Milavsky was Chairman of Trizec Corporation Ltd. from October 1990 to March 1993; George K. Petty was Vice-President of Global Business Services for AT&T from January 1993 to October 1994, prior to which he was Vice-President, Western Region with the same company.

Officers who are not Directors

The name, municipality of residence and position with TELUS Corporation of those officers who are not directors are as follows:

Name and Municipality of Residence	Position with TELUS
Gary W. Goertz Edmonton, Alberta	Executive Vice-President, Finance and Chief Financial Officer
Frank J. Parrotta Edmonton, Alberta	Executive Vice-President, Corporate Development
George N. Addy Edmonton, Alberta	Executive Vice-President and Chief General Counsel
Allan E. Scott Edmonton, Alberta	Executive Vice-President
Harry W. Truderung Calgary, Alberta	Executive Vice-President
Bohdan S. Romaniuk Calgary, Alberta	Executive Vice-President
James M. Drinkwater Edmonton, Alberta	Vice-President and Treasurer
Kerry C. Day Edmonton, Alberta	Corporate Secretary and General Counsel

All of the officers above have been engaged for the past five years in the specified present principal occupations or in other executive capacities with TELUS, its subsidiaries, its affiliates or predecessors thereof, except as follows: Gary W. Goertz was the principal of Goertz & Associates from July 1992 until March 1994; George N. Addy was the Director of Investigation and Research, Competition Bureau from December 1993 to June 1996, prior to which he was Senior Deputy Director, Investigations and Research, Competition Bureau; Allan E. Scott was the Vice-President of Finance and Corporate Planning of Canadian Utilities Limited from 1992 to 1995; Kerry C. Day was a partner of Milner Fenerty, Barristers and Solicitors, from February 1991 to October 1994.

The directors and senior management of TELUS as a group own, directly or indirectly, or exercise control or direction over approximately 88,026 common shares, representing 0.06% of the outstanding voting securities of TELUS.

ADDITIONAL INFORMATION

Additional Information

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of TELUS securities, and options to purchase securities is contained in TELUS' Information Circular dated March 17, 1998 for the Annual and Special Meeting of Shareholders to be held April 30, 1998. Additional financial information, including supplementary quarterly financial data and TELUS' audited consolidated financial statements for the year ended December 31, 1997, are set out in the 1997 Annual Report to Shareholders.

Requests for Additional Information

TELUS shall provide to any person, upon request to the Corporate Secretary of TELUS at Floor 31, 10020 - 100 Street, Edmonton, Alberta, T5J 0N5,

(a) when the securities of TELUS are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities:

  (i) one copy of this Annual Information Form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

  (ii) one copy of the comparative audited consolidated financial statements of TELUS for the year ended December 31, 1997 together with the accompanying report of the auditor and one copy of any interim financial statements of TELUS subsequent to such audited consolidated statements;

  (iii) one copy of TELUS' Information Circular dated March 17, 1998; and

  (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (i) to (iii) above, provided that TELUS may require the payment of a reasonable charge if the request is made by a person who is not a security holder of TELUS.

TELUS Communications also files an Annual Information Form with certain provincial securities commissions, a copy of which may be obtained by writing to the Corporate Secretary of TELUS Communications at the address provided above.

TELUS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 1997 AND FOR THE YEAR ENDED DECEMBER 31, 1996

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 1997

This Management Discussion & Analysis comprises the following sections: Overview, Results of Operations, Liquidity and Capital Resources, and Outlook. These sections should be read jointly with the audited consolidated financial statements on pages H-50 - H-70.

Overview

	1997	1996	Change	%
	(millions except return on equity and earnings per share)			
Income before income taxes	$ 322.8	$275.0	$ 47.8	17.4
Less: Income taxes	168.1	8.1	160.0	—
Discontinued operations	127.3	(24.3)	151.6	—
Extraordinary item	(285.2)	—	(285.2)	—
Net income (loss)	$ (3.2)	$242.6	$(245.8)	(101.3)
Return on common equity (%)	0.0	12.5	(12.5)	—
Earnings (loss) per common share				
Continuing operations	$ 1.07	$ 1.87	$ (0.80)	(42.8)
Discontinued operations	0.88	(0.17)	1.05	—
Extraordinary item	(1.97)	—	(1.97)	—
Net	$ (0.02)	$ 1.70	$ (1.72)	(101.2)

The major events affecting 1997 continuing operations were:

- strong growth in cellular subscribers
- local rate increases
- new residential and business long distance savings plans
- higher depreciation rates in TELUS Communications
- significantly lower debt and interest expense

In addition, there were three significant items affecting reported net income:

- gains from the sale of 50% interests in both Telecential and ISM Alberta — see Discontinued operations
- an extraordinary non-cash charge against the recorded value of regulated assets precipitated by the introduction of price cap regulation — see Extraordinary item
- new Canadian accounting requirements adopted relating to the recording of future income tax assets on the balance sheet and expensing of the income tax asset over time — see Income taxes

Results of Operations

Operating Revenues by Subsidiary

	1997	1996	Change	%
		(millions)		
TELUS Communications	$1,370.9	$1,311.0	$ 59.9	4.6
TELUS Edmonton	304.6	288.0	16.6	5.8
TELUS Mobility	348.0	255.5	92.5	36.2
TELUS Advertising Services*	96.2	91.4	4.8	5.2
Other subsidiaries	27.6	11.1	16.5	148.6
Consolidation eliminations	(127.5)	(96.7)	(30.8)	(31.9)
Operating revenues	$2,019.8	$1,860.3	$159.5	8.6

*TELUS Advertising Services Edmonton reported in TELUS Advertising Services

Operating Revenues

			% of Total	
	1997	1996	1997	1996
		(millions)		
Local service	$1,195.1	$1,028.7	59.2	55.3
Long distance service	676.3	698.6	33.5	37.6
Other	148.4	133.0	7.3	7.1
Operating Revenues	$2,019.8	$1,860.3	100.0	100.0

The majority of the increase in operating revenues was in local services due to volume and rate increases. Long distance revenue decreased from last year due to the effect of lower prices. Other revenue increased primarily from growth at TELUS Advanced Communications (data services) and TELUS Advertising Services.

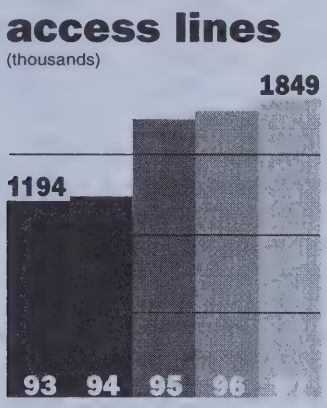
Local Service

	1997	1996	Change	%
Revenue (millions)	$1,195.1	$1,028.7	$166.4	16.2
Network access lines (000's)	1,848.6	1,765.8	82.8	4.7
Cellular subscribers (000's)	408.7	328.4	80.3	24.4

Local service revenue is recorded by TELUS Communications, TELUS Edmonton, and TELUS Mobility.

Strong growth in Mobility subscribers increased local revenue by $59.1 million, while local rate increases in January 1997 at TELUS Communications increased revenue by $35.7 million. Local access contribution payments from long distance competitors increased by $18.8 million to $56.8 million. Revenue from enhanced services, such as Call Display and Call Answer and from the Internet increased by $13.3 million (25%).

Revenues from other services such as Centrex and *Megalink** grew by $21.9 million (29%). Higher growth in network access lines, especially in second lines, also contributed to the local revenue increase.





Long Distance

	1997	1996	Change	%
Revenue (millions)	$ 676.3	$ 698.6	$(22.3)	(3.2)
Minutes (millions)	2,139.4	2,034.8	104.6	5.1

Long distance service revenue is recorded by TELUS Communications and TELUS Mobility.

Long distance revenue at TELUS Communications decreased $49.0 million due primarily to lower prices partially offset by higher minute volume. Market share was down slightly at 66% from 68% last year. Long distance revenue at TELUS Mobility increased by $32.0 million or 79% due to subscriber growth and strong business usage across TELUS' large Alberta cellular coverage area.

Other

	1997	1996	Change	%
Revenue (millions)	$148.4	$133.0	$15.4	11.6

Other revenue consists primarily of directory advertising and publishing revenue at the TELUS Advertising companies. The remaining components include equipment rentals, amortization of Individual Line Service government grants, data services and call centre revenues.

Revenues from data services and call centres increased by $9.9 million in 1997. Growth in sales of national directories and increased demand for ad space helped improve advertising and publishing revenues by $5.1 million.

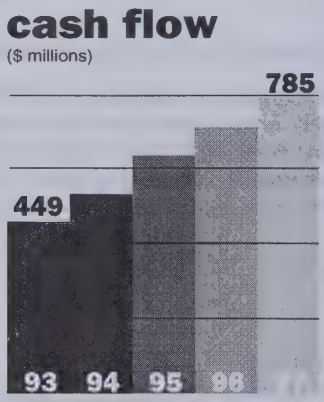
Operating Expenses by Subsidiary

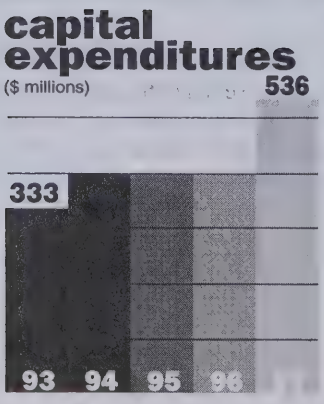
	1997	1996	Change	%
		(millions)		
TELUS Communications	$1,119.7	$1,028.0	$ 91.7	8.9
TELUS Edmonton	243.2	224.4	18.8	8.4
TELUS Mobility	195.8	153.6	42.2	27.5
TELUS Advertising Services	81.8	76.7	5.1	6.6
Other subsidiaries and corporate	86.0	66.1	19.9	30.1
Consolidation eliminations	(127.5)	(96.7)	(30.8)	(31.9)
Operating expenses	$1,599.0	$1,452.1	$146.9	10.1

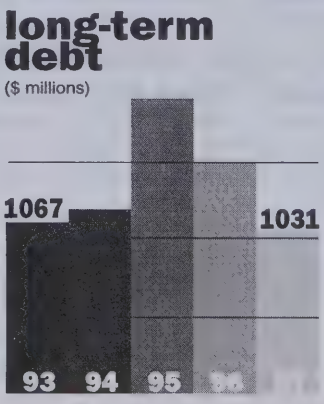
Operating Expenses

			% of Total	
	1997	1996	1997	1996
		(millions)		
Operations	$1,063.1	$1,014.1	66.5	69.8
Depreciation and amortization	535.9	438.0	33.5	30.2
Operating expenses	$1,599.0	$1,452.1	100.0	100.0

Depreciation and amortization increased to over one third of total operating expenses.







Operations

	1997	1996	Change	%
Operations expense (millions)	$1,063.1	$1,014.1	$ 49.0	4.8
EBITDA margin (%)	47.4	45.5	1.9	—
Employees	8,972	8,858	114	1.3

TELUS Mobility operations expense increased due to the 24% growth in subscribers. Network interconnect and site rental charges, and general operations expenses increased by $21.9 million due to volume growth. Salaries and benefits increased by $6.4 million due mainly to higher staff levels. A $3.4 million increase in dealer costs was associated with a customer loyalty program.

TELUS Communications and TELUS Edmonton's combined operations expense was up $8.5 million. This was primarily due to $7.8 million of year 2000 project readiness costs, and a $10.0 million write-down of slow moving materials and inventory at TELUS Communications, partly offset by a number of productivity improvements.

Operations expense from all other subsidiaries increased by $8.8 million.

Earnings before interest, taxes, depreciation and amortization increased by $110.6 million in 1997 to $956.8 million as the operations expense grew at a slower rate than did revenue.

Depreciation and Amortization

	1997	1996	Change	%
Depreciation and amortization (millions)	$535.9	$438.0	$97.9	22.3
Average depreciation rate (%)	9.5	7.8	1.7	—

Adoption in 1997 of higher depreciation rates for certain assets in TELUS Communications was the primary reason for a $96.4 million increase in depreciation and amortization expense in that company. Growing capital expenditures were the main reason for a $10.5 million increase at TELUS Mobility and an $8.9 million increase in other companies.

Amortization of goodwill decreased by $17.9 million due to the adoption of a new accounting policy effective January 1, 1997. This is discussed in more detail under the income taxes section below.

Income From Operations by Subsidiary

	1997	1996	Change	%
		(millions)		
TELUS Communications	$251.2	$283.0	$(31.8)	(11.2)
TELUS Edmonton	61.4	63.6	(2.2)	(3.4)
TELUS Mobility	152.2	101.8	50.4	49.5
TELUS Advertising Services	14.4	14.7	(0.3)	(1.8)
Other subsidiaries and corporate	(58.4)	(54.9)	(3.5)	(6.4)
Income from operations	$420.8	$408.2	$ 12.6	3.1

Income from operations grew despite higher non-cash depreciation expense. Operating income as a percentage of revenue decreased to 20.8% from 21.9% in 1996.

Interest Expense and Other

	1997	1996	Change	%
		(millions)		
Interest expense, net	$97.2	$140.2	$(43.0)	(30.7)
Other	0.8	(7.0)	7.8	—

Interest income is netted against interest expense. The main reason for the decrease in net interest expense was the $423.3 million reduction in long-term debt during the year. Higher interest income due to higher average cash balances also reduced net interest expense.

TELUS Communications interest expense on long-term debt decreased by $31.3 million due principally to long-term debt repayments in January and July 1997. Interest expense relating to the bank credit facility decreased by $7.3 million due to a repayment in 1996. Interest expense was further reduced by a repayment in 1997 of long-term notes in TELUS Edmonton. The average net borrowing cost in 1997 was approximately 8.0% (9.0% in 1996).

'Other' reflects non-operational and non-recurring transactions. The major transaction in 1996 was a $6.0 million reduced contribution to certain benefit plans.

Income Taxes

	1997	1996	Change	%
		(millions)		
Income taxes	$168.1	$8.1	$160.0	—

The increase in income taxes was attributed to two factors:

- $54.5 million due principally to the loss of tax shelters Telecential provided
- $105.5 million due to the adoption of new CICA income tax reporting requirements that brings tax expense to the marginal tax rate. This is affected through a reduction of future income tax assets, which have been recorded on the balance sheet

The following table details the resulting changes to 1997 income.

	1997 Before Accounting Policy Change	Change	1997 After Accounting Policy Change
		(millions)	
Income before income taxes	$305.0	$ 17.9	$322.9
Income taxes	62.6	105.5	168.1
Income from continuing operations, before extraordinary item	$242.4	$(87.6)	$154.8

Income before income taxes increased from a $17.9 million reduction in goodwill amortization expense. This was due to the recognition of the future income tax asset and the corresponding reduction in the goodwill asset, resulting from the 1995 ED TEL acquisition.

Future Income Tax Asset

	January 1, 1997 Before Accounting Policy Change	Change	January 1, 1997 After Accounting Policy Change
		(millions)	
Goodwill asset	$268.5	$(179.3)	$ 89.2
Future income tax asset	—	569.7	569.7
		$ 390.4	
Deferred income tax liability	$ 9.5	$ (9.5)	$ —
Retained earnings	461.4	399.9	861.3
		$ 390.4	

TELUS adopted the provisions of a new Canadian accounting requirement for income taxes. Under these new rules, the expected economic benefit from unused tax losses, unused tax reductions, and other temporary differences between taxable income and income before taxes is recorded on the balance sheet. A future income tax expense is recorded as this future income tax asset is used.

Discontinued Operations

	1997	1996	Change	%
		(millions)		
Discontinued operations	$127.3	$(24.3)	$151.6	—

TELUS sold its 50% interest in Telecential in the first quarter of 1997. An amount of $119.4 million has been recorded comprising of a $123.9 million gain after taxes and a $4.5 million operating loss prior to the sale. Telecential's loss for 12 months in 1996 was $30.3 million.

In the third quarter of 1997, TELUS sold its 50% interest in ISM Alberta. An amount of $7.9 million was recorded comprising a $4.8 million gain after taxes and $3.1 million income for the period prior to the sale. ISM Alberta's income for 12 months in 1996 was $6.0 million.

Extraordinary Item

	1997	1996	Change	%
		(millions)		
Extraordinary item	$(285.2)	$—	$(285.2)	—

The telecommunications industry in Canada is undergoing significant regulatory, competitive and technological change. The Canadian industry, as the U.S. industry did several years ago, has implemented a change in accounting that recognizes telecommunications companies have under-depreciated assets that the regulatory process will never recover.

For these reasons, and with the introduction of price cap regulation effective in 1998, TELUS has recorded an extraordinary charge of $285.2 million after taxes. This charge was composed of a before tax increase in the accumulated depreciation for property, plant, and equipment of $442.7 million and the elimination of the $72.3 million in deferred restructuring costs.

Liquidity and Capital Resources

Cash and Short-term Deposits

	1997	1996	Change	%
		(millions)		
Cash and short-term deposits	$263.6	$76.4	$187.2	245.2

The 1997 ending cash balance represents the proceeds from the sale of Telecential and ISM Alberta to the extent that these funds were not required for debt repayments.

Operating Activities

	1997	1996	Change	%
		(millions)		
Cash provided by operating activities	$847.8	$633.2	$214.6	33.9

The increase in cash provided by operating activities in 1997 resulted from a $47.9 million increase in income before taxes and a $97.9 million higher depreciation and amortization expense. Net changes in non-cash working capital increased $132.6 million relative to 1996 changes, of which $57.3 million represented the unpaid portion of current income taxes booked in 1997.

Dividends

	1997	1996	Change	%
		(millions)		
Dividends	$133.1	$130.8	$2.3	1.7

Total dividend payments in 1997 increased slightly, resulting from additional equity raised under the dividend reinvestment and share purchase plan, the TELUS employee share purchase plan and the executive stock option plan. The quarterly dividend payment remained unchanged at $0.23 per common share.

Financing Activities

	1997	1996	Change	%
		(millions)		
Cash used by financing activities	$(389.2)	$(244.8)	$(144.4)	59.0

During 1997, a total of $423.3 million in long-term debt was repaid compared to $285.7 million in 1996. The repayments in 1997 were funded from internally generated cash and proceeds from the sale of Telecential. Debt repayments in 1996 were prefunded with a $200 million issue in the previous year. In 1997, TELUS Communications repaid a $200 million 9.3% note in January and a second $200 million 9.8% note in July, and TELUS Edmonton repaid $18.5 million of other notes.

The $36.1 million raised from the issue of common shares in 1997 ($42.9 million in 1996) was comprised of $18.4 million from shares under the dividend reinvestment share purchase plan, $9.8 million from shares under the employee share purchase plan, and $8.0 million from shares from the executive stock option plan. After July 1997, shares required for the dividend reinvestment and employee share purchase plans were acquired on the open market rather than being issued from treasury.

Investing Activities

	1997	1996	Change	%
		(millions)		
Cash used by investing activities	$(522.5)	$(372.3)	$(150.2)	40.3
Cash provided (used) by investing activities related to discontinued operations	$ 403.0	$ (91.3)	$ 494.3	—

Cash used for investing in 1997 was higher than in 1996 largely due to increased capital expenditures.

The sale of Telecential and ISM Alberta provided $403.0 million of cash in 1997. In 1996, capital expenditures in Telecential were $87.8 million.

Capital Expenditures

	1997	1996	Change	%
		(millions)		
TELUS Communications	$266.5	$230.3	$ 36.2	15.7
TELUS Edmonton	97.0	67.9	29.1	43.0
TELUS Mobility	122.7	73.3	49.4	67.4
TELUS Advertising Services	5.3	6.8	(1.5)	(22.8)
Other	44.4	16.4	28.0	170.7
Capital expenditures	$535.9	$394.7	$141.2	35.8

Capital expenditures in TELUS Communications increased in 1997 due to rearrangements to the switching network, which will reduce future operating expenditures, product and service development expenditures for an integrated voice messaging service, business terminals resulting from high customer demand and conversion of subscriber lines to allow high-speed Internet.

TELUS Edmonton capital expenditures increased in 1997 over 1996, largely due to the development and implementation of the SAP information system.

TELUS Mobility capital expenditures increased in 1997, due to $47.9 million of spending on the network for new enhanced digital service, to be launched in 1998. Additional spending of $9.9 million to develop a new billing system to be implemented in 1998, was offset by lower spending on the analog network.

Other increases in capital expenditures were primarily attributable to the TELUS Multimedia trial.

Credit Facilities

TELUS Communications maintains a short-term commercial paper program with an approved maximum of $300 million supported by committed bank credit facilities. A $200 million revolving bank credit facility and a $25 million short term credit facility are in place at TELUS Corporation. At year-end, neither company had any significant external borrowings outstanding under these facilities.

TELUS Communications has an established unsecured $400 million medium-term note program under a shelf prospectus valid until August 1998. The program provides TELUS Communications with the flexibility to issue notes with maturities of one to thirty years to finance maturing long-term notes, capital expenditures and for other general corporate purposes. The medium-term note program has not yet been accessed.

Liquidity and Capital Resource Ratios

	1997	1996	Change
Debt to total capitalization	36.1%	46.8%	(10.7%)
Net debt to total capitalization (net of sinking fund assets)	34.1%	45.3%	(11.2%)
Cash flow to net long-term debt	71.6%	37.7%	33.9%
Construction funded internally	134.8%	130.5%	4.3%

Debt as a proportion of total capitalization decreased in 1997, due primarily to the effects of the repayment of $423.3 million in long-term debt and an increase in retained earnings attributable to the change in accounting policy. The ratio of cash flow to net long term debt has increased due to improved cash from operating activities and the reduction in long-term debt. The increase in cash from operating activities, partially offset by increased capital expenditures, has resulted in a slight improvement in the proportion of construction funded internally.

Credit Ratings

	1997	1996
CBRS — commercial paper	A-1	A-1
CBRS — debentures/notes	A	A
DBRS — commercial paper	R-1(middle)	R-1(middle)
DBRS — debentures/notes	A(high)	A (high)

TELUS Communications maintained strong credit ratings in 1997 and early 1998. In December, the Canadian Bond Rating Service (CBRS) reaffirmed TELUS Communications' commercial paper and debenture ratings with a stable outlook, citing a strong franchise area, modern network, improvements in efficiencies and a stable financial outlook. In July, the Dominion Bond Rating Service (DBRS) confirmed TELUS Communications' credit ratings for senior debentures and commercial paper, with a negative outlook. DBRS cited increasingly intense long distance competition and the future impact of local competition in 1998 as support for its outlook. The DBRS rating was reconfirmed in February 1998.

Outlook

The telecommunications industry in Canada is entering the final stage of an industry wide transition to full competition that began in the early 1990's. The latest step is the opening up of the local telephone business as of January 1998. This competitive transition has been accompanied by technological advances and aided by a steady move to less regulation. In times like these, there are many uncertainties, risks, opportunities for innovation and even some confusion. However, the communications industry is proving to be an attractive one for many investors because of its continued high growth potential and opportunities for value creation.

Before we look forward, a good base of understanding can be gained by looking back at the issues and expectations for 1997 that we communicated to you a year ago.

Reporting Back

The key outlook issues of last year unfolded much as we expected. In last year's annual report, the following key issues were highlighted:

- ongoing competition in the long distance market
- advent of wireless digital cellular competition
- reduction in customer growth and revenue per customer in the cellular market
- regulatory rules for competition in the local telephone market
- development of new and enhanced services

Long distance competition was active and our market share erosion slowed significantly due to our competitive actions. Digital cellular had little impact in 1997, with only one of the two new competitors entering Alberta in December 1997. Cellular customer growth slowed to 24%, but we bucked the industry trend once again, and managed a slight increase in cellular revenue per subscriber. Regulatory rules for local competition were announced in May and they were viewed as being fair and balanced. Services such as high speed Internet and the Multimedia trial were launched.

The Outlook section last year contained a dozen statements on specific expectations and trends for 1997. Eleven of 12 were met. These included Alberta GDP growth of over 3%, declining revenue per minute in long distance, the goal of maintaining cellular market share in the 65-70% range and having over 400,000 cellular subscribers by year end. All these were attained.

Most of the financial expectations were met with the exception being expected revenue growth of 10% — it was 9%. This can be attributed to the divestiture of two partnership interests — Telecential and ISM Alberta. Expectations of lower per unit operating costs, higher capital expenditures and higher cash flow were achieved.

So despite the uncertainties and opportunities of an industry in transition, we managed to meet most of our objectives. However, one year's success should not make management or investors overconfident, since it remains difficult to look forward in the current environment of competitive and technological change.

Key Issues for the Future

New issues for investors to watch in next two years include:

- possible moderation of the Alberta's strong economic growth
- increased demand for existing and new enhanced communications services spurred by lower pricing and new technology
- impact of two new cellular companies on pricing and market share
- need for TELUS Communications to offset the 4.5% productivity factor under the new four year price cap formula for local rates
- the amount of local market share that new competitors gain
- potential consolidations within the Canadian telecommunication industry, which is relatively small by North American and global standards

TELUS continues to benefit from operating in the province of Alberta, which is currently recognized as having one of the best provincial economies in Canada — with the lowest overall tax rates, government surpluses and above average economic growth. Despite low resource prices in late 1997, Alberta is forecast to have 1998 Gross Domestic Product growth higher than the just over 3% expected for Canada. The 1997 estimated GDP growth in Alberta is over 5% compared to about 4% for the rest of Canada.

Another positive aspect of telecommunications is the proliferation of new uses in the home and business that is stimulating demand. For example, second line growth is strong due use of home fax machines and use of the Internet. Overall, telephone line growth has increased to 4.7% last year, the highest rate in the last nine years. And a new Internet service like *TELUS PLAnet*, which did not exist three years ago, had 68,000 customers at year end — up 122% this year — and by year end was generating $1.3 million a month in revenue.

TELUS enters 1998 in a very strong financial position with $264 million of cash on hand, on ongoing position of free cash flow and a strong balance sheet that could comfortably allow more debt.

Risks and Uncertainties/Competition

TELUS Communications will continue to face strong long distance competition and the beginning of local competition in 1998 — most likely in Calgary. Local competition is not authorized in Edmonton at this time. It will likely be allowed late in 1998 when TELUS Edmonton's special regulatory transition directive expires.

Each one per cent change in market share equates to an estimated revenue impact of $7 million for long distance and $5 million for local revenue.

Long distance pricing reductions also cause lost revenue. Each one cent change in revenue per minute, net of demand stimulated by lower prices, equates to an estimated $11 million of revenue. Long distance revenue per minute declined in 1997 by four cents to 25 cents. We foresee further declines in this measure as residential rates were reduced in June and business rates in September 1997 and January 1998. We cannot predict the pricing behaviour of the major competitors against whom we plan to remain price competitive.

Local competition is being introduced in 1998 under the procedures and rules outlined by the CRTC in May 1997. The impact on TELUS and other telephone companies is expected to be more gradual than when long distance competition began because of the regulatory model chosen by the CRTC — namely a facilities based one. This means that artificial regulated discounts and forced resale of much of our network and operating services to competitors is not required, as it is in the United States. New local entrants must finance and build their own networks or lease facilities from TELUS at reasonable prices.

New entrants, including cable-TV companies, will initially be drawn to the urban markets. However, the CRTC has set up a subsidy mechanism that encourages competition in the high cost areas outside the urban city centres. One key requirement for the effective local competition is local number portability, where customers can take their phone number over to a competitor. It is not expected to be available until the latter half of 1998. The CRTC has not yet set out the rules on how the costs of this new system are to be shared.

Other forms of competition will begin affecting TELUS revenues and margins in 1998 — specifically digital cellular. Two national providers have begun building systems in Calgary and Edmonton, with one having a limited launch in December 1997. These new players will provide competition to TELUS' existing cellular service, the digital cellular service to be launched by mid-year and potentially to our local telephone service. These competitors have engaged in very aggressive pricing in other Canadian markets and caused consumer confusion, as we go to four competitors — up from two — and go to four different technology choices — up from one. We expect that our current TELUS Mobility EBITDA margin of 54% will be reduced this year from lower pricing and increased expenses related to acquiring and retaining customers, including higher advertising and phone subsidies.

Revenue per cellular subscriber in North America has trended sharply down, in recent years, as lower usage customers subscribe and new entrants lower prices. This trend has not occurred at TELUS Mobility due to the delay of digital competitors, a strong Alberta economy and our unique province wide footprint and usage pattern. Our 1997 cellular revenue per subscriber per month of $82 was $1 higher than a year ago and remains among the highest in North America. With new competition, we do expect this indicator to decline next year. Each $1 change equates to an estimated annual revenue change of $5 million. TELUS Mobility expects to have its market share decline from an estimated 68% — primarily from a reduced share on new growth and not from a decline in the existing base. Their goal is to keep overall market share in the 60 to 65% range.

Beginning in 1998, TELUS and the other telephone companies can compete in the cable-TV business. As a result we have set up a trial to test the economic feasibility of such a venture. TELUS Multimedia is offering high-speed data and entertainment services to 1,000 homes (potentially 3,400) in three neighbourhoods of Calgary and Edmonton. The trial results on customer acceptance and business potential are not expected until early 1999 assuming the CRTC allows the trial to continue despite delays in delivery of new generation digital modems.

Readiness for the year 2000 is a top priority at TELUS. Our products and services are provided on complex computerized networks that interconnect with numerous internal systems and with other Canadian and international telecommunications carriers. TELUS project teams have been working since late 1996 on preparing for the year 2000 and we are working with other telecommunications companies to coordinate these activities. TELUS spent approximately $8 million in 1997 on this project and approximately $30 million operations expense is planned for 1998. The goal for the year 2000 project is to have all critical systems modified and tested by the end of 1998. Further work will be required in the first half of 1999 to complete interoperable testing with third parties.

Competitive Strategy

In late 1996 TELUS introduced a new competitive strategy in the Alberta marketplace. Central to this is a strong brand presence and the determination to keep long distance pricing competitive. A strong visible brand in competitive markets is essential, in our view — especially when backed by high quality products, fair pricing and excellent customer service. This strategy also better positions us for customers who prefer a single point of contact for all their communications needs.

We have executed this strategy with unified advertising and a series of price adjustments in both the residential and business long distance markets. In addition, a residential price guarantee offered in mid 1997 has been successful in ensuring customers perceive TELUS as fully price competitive. The results have been gratifying with long distance market share erosion slowing to 2% in 1997 — after experiencing a 10% loss in each of the previous two years. In addition, overall market growth has been stimulated and the volume of minutes increased in 1997.

On the local side, we will pursue a price competitive approach with major competitors, while ensuring customers enjoy excellent customer service and are made aware of the benefits of doing business with a full service communications company. This strategy will see a comprehensive business rate restructuring — focussed particularly in the urban markets — in the first half of 1998. This will include local business rates and enhanced business services such as Centrex and *Megalink*.

TELUS Mobility has a unique digital strategy compared to the new entrants as it plans on extending digital services to its entire Alberta coverage footprint. The new entrants are only expected to have a digital network in Calgary and Edmonton initially and will provide analog service elsewhere via roaming agreements with the two existing cellular operators. As a result, TELUS customers will have access to enhanced digital cellular features across Alberta and not just in several major cities.

The market share goals of TELUS are to remain at or above 65% in long distance and above 60% in cellular next year, and to keep above 90% in local over the next two years.

Financial Expectations

In 1998, TELUS expects revenue growth similar to last year's rate of 9% from a combination of cellular revenue growth, data business growth, local rate increases, partially offset by a continued reduction in long distance revenue.

Net income in 1998 will be affected by two accounting developments in the fourth quarter of 1997. First, was the write-down of assets to reflect ceasing of regulatory accounting practices. This has the affect of reducing operations, depreciation and amortization expenses going forward into 1998 by approximately $89 million, which will increase earnings per share by 61 cents, using the year end shares outstanding. However, the adoption of the new policy on income tax accounting for Future Income Tax Assets, will reduce amortization expense by almost $18 million in 1998, and the total income tax rate in 1998 will be above the 44.6% statutory rate. This is in contrast to the more gradual ramp up in tax rate previously expected. It should be noted that neither of these accounting developments affect cash flow.

TELUS is also focussed on operations expense. There is a TELUS wide focus on all unit costs — per telephone line, per customer, per long distance minute, etc. For example, operating expenses per average telephone line decreased 4% in 1997. As reported to you last year, a major process improvement initiative for 1998 was to replace many financial and operational information systems across TELUS with one common SAP system. The new SAP system replaces over 80 existing systems. This was implemented as planned in January 1998, except in TELUS Mobility, who delayed to allow completion of a new billing system.

However, 1998 will be a difficult year to attain significant cost efficiencies because of the extra costs of preparing the local network and many processes for interconnection with competitors, reducing customer service times, year 2000 readiness costs, and adapting to the new SAP system work processes.

TELUS can expect higher cash flow in 1998 but the increase will likely not be large due to these extra expenses. There is some risk that we could pay cash taxes in 1998, but we are reasonably confident that we can reorganize our legal entity structure in 1998, to minimize this while simplifying our reporting.

Liquidity and Capital Resources

TELUS believes that its internally generated cash flow coupled with its ability to access external capital provide sufficient resources to finance its cash requirements during 1998. With an approximate long-term debt to total capital target of 40% and a year-end ratio of 34%, TELUS has significant capacity to raise additional debt, if needed.

TELUS Communications has $200 million of long-term notes payable coming due in July of 1998. This will likely be repaid with either the unused $400 million medium term note facility or internally generated cash or a combination of the two.

Capital expenditures should be approximately the same in 1998, as compared to the $536 million spent in 1997. However, 1997 and 1998 expenditures will be higher than previous and future years due to spending on the new digital cellular network, Multimedia trial, new SAP system, and local number portability.

TELUS has an outstanding issuer bid, which allows TELUS to repurchase up to 7.5 million of its shares by August 26, 1998. Completing this bid would adjust the capital structure back towards the long-term target and would increase earnings per share.

Based on the current situation, TELUS' financial position should remain strong in 1998.

Segmented Information

While all TELUS activities fall within the telecommunications industry, the following information illustrates the relative financial results of TELUS' major subsidiaries.

	TELUS Communications	TELUS Edmonton	TELUS Mobility	TELUS Advertising Services	Others and Eliminations	Consolidated Totals
			(millions of dollars)			
1997						
Revenue	$1,370.9	$304.6	$348.0	$96.2	$ (99.9)	$2,019.8
Operations expense	697.2	179.8	160.0	78.5	(52.4)	1,063.1
Depreciation and amortization	422.5	63.4	35.8	3.3	10.9	535.9
Income from operations	251.2	61.4	152.2	14.4	(58.4)	420.8
Interest expense and other						98.0
Income taxes						168.1
Income from continuing operations before extraordinary item						$ 154.7
Discontinued operations						127.3
Extraordinary item						(285.2)
Net loss						$ (3.2)
Current assets	$ 398.3	$214.7	$506.1	$37.9	$(316.2)	$ 840.8
Property, plant and equipment, net	1,920.8	410.5	247.8	10.9	59.6	2,649.6
Other assets	538.1	93.0	23.0	22.0	68.7	744.8
Total assets	$2,857.2	$718.2	$776.9	$70.8	$(187.9)	$4,235.2

	TELUS Communications	TELUS Edmonton	TELUS Mobility	TELUS Advertising Services	Others and Eliminations	Consolidated Totals
			(millions of dollars)			
1996						
Revenue	$1,311.0	$288.0	$255.5	$91.4	$ (85.6)	$1,860.3
Operations expense	701.9	166.7	128.4	73.9	(56.8)	1,014.1
Depreciation and amortization	326.1	57.7	25.3	2.9	26.0	438.0
Income from operations	283.0	63.6	101.8	14.6	(54.8)	408.2
Interest expense and other						133.2
Income taxes						8.1
Income from continuing operations						266.9
Discontinued operations						(24.3)
Net Income						242.6
Current assets	$ 315.9	$141.9	$361.2	$28.0	$(358.8)	$ 488.2
Property, plant and equipment, net	2,536.4	376.0	163.2	9.5	285.6	3,370.7
Other assets	269.8	1.8	3.9	—	269.6	545.1
Total assets	$3,122.1	$519.7	$528.3	$37.5	$ 196.4	$4,404.0

Quarterly Financial Data

	Three Months Ended				
	March 31	June 30	September 30	December 31	Total
	(millions except earnings per share)				
1997 (1,2)					
Operating revenues	$484.3	$502.2	$498.2	$ 535.1	$2,019.8
Operating expenses	369.9	399.7	389.1	440.3	1,599.0
Income from operations	114.4	102.5	109.1	94.8	420.8
Interest expense, net	29.2	27.2	20.7	20.1	97.2
Other (income)	(0.7)	1.5	0.7	(0.7)	0.8
Income taxes	44.7	38.4	45.7	39.3	168.1
Income from continuing operations	41.2	35.3	42.1	36.1	154.7
Discontinued operations	121.7	1.1	5.8	(1.3)	127.3
Extraordinary item	—	—	—	(285.2)	(285.2)
Net income	$162.9	$ 36.4	$ 47.9	$(250.4)	$ (3.2)
Earnings per share, continuing operations	$ 0.29	$ 0.24	$ 0.29	$ 0.25	$ 1.07
Earnings per share, net	$ 1.13	$ 0.25	$ 0.33	$ (1.73)	$ (0.02)
Average common shares outstanding	144.1	144.8	145.4	145.5	145.0

	Three Months Ended				
	March 31	June 30	September 30	December 31	Total
	(millions except earnings per share)				
1996 (1)					
Operating revenues	$449.6	$454.1	$460.4	$ 496.1	$1,860.3
Operating expenses	348.5	355.6	355.4	392.6	1,452.1
Income from operations	101.1	98.5	105.0	103.5	408.2
Interest expense, net	37.5	34.5	34.0	34.2	140.2
Other (income)	0.1	(0.1)	(3.4)	(3.7)	(7.0)
Income taxes	2.0	1.9	2.1	2.2	8.1
Income from continuing operations	61.5	62.2	72.3	70.8	266.9
Discontinued operations	(4.8)	(5.5)	(3.0)	(10.9)	(24.3)
Net income	$ 56.7	$ 56.7	$ 69.3	$ 59.9	$ 242.6
Earnings per share, continuing operations	$ 0.43	$ 0.44	$ 0.51	$ 0.49	$ 1.87
Earnings per share, total	$ 0.40	$ 0.40	$ 0.48	$ 0.42	$ 1.70
Average common share outstanding	141.6	142.1	142.9	143.5	142.6
1995 (1)					
Operating revenues	$362.4	$416.4	$408.5	$ 447.5	$1,634.8
Operating expenses	279.0	324.6	324.4	370.7	1,298.7
Income from operations	83.4	91.8	84.1	76.9	336.1
Interest expense, net	28.9	39.8	39.4	38.1	146.2
Other (income)	(4.4)	(0.2)	(29.2)	2.1	(31.7)
Income taxes	1.9	2.0	11.6	1.8	17.3
Income from continuing operations	57.0	50.2	62.3	34.9	204.3
Discontinued operations	(3.7)	(3.4)	(3.4)	(3.2)	(13.5)
Net income	$ 53.3	$ 46.8	$ 58.9	$ 31.7	$ 190.8
Earnings per share, continuing operations	$ 0.41	$ 0.36	$ 0.44	$ 0.25	$ 1.46
Earnings per share, total	$ 0.38	$ 0.34	$ 0.42	$ 0.22	$ 1.36
Average common shares outstanding	139.4	139.7	140.2	141.0	140.1

(1) Restated for discontinued operations.

(2) Restated for accounting policy change.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 1996

This management discussion & analysis comprises the following sections: Overview, Results of Operations, and Liquidity and Capital Resources. These sections should be read jointly with the audited Consolidated Financial Statements on pages H-50 - H-70.

Overview

	1996	1995	Change	%
Net income (millions)	$242.6	$190.8	$ 51.8	27.2
Return on common equity (%)	12.5	10.5	2.0	—
Earnings per share	$ 1.70	$ 1.36	$ 0.34	25.0

The major events affecting 1996 operating results were:

- continued growth in cellular subscribers
- implementation of local rate increases
- inclusion of TELUS Edmonton results for 12 months in 1996 compared with 10 post acquisition months in 1995
- competition in the long distance market

Results of Operations

The results for TELUS partnerships in ISM Alberta and Telecential have been reclassified to discontinued operations. Both of these partnerships were sold in 1997.

Operating revenues

Operating revenues by major TELUS subsidiary were as follows:

Operating Revenues

	1996	1995	Change	%
		(millions)		
TELUS Communications	$1,311.0	$1,211.3	$ 9.7	8.2
TELUS Edmonton	288.0	228.3	59.7	26.1
TELUS Mobility	255.5	156.5	99.0	63.2
TELUS Advertising Services *	91.4	92.1	(0.7)	−0.8
Other subsidiaries	11.1	4.2	6.9	164.3
Consolidation eliminations	(96.7)	(57.6)	(39.1)	−67.6
Operating revenues	$1,860.3	$1,634.8	$225.5	13.8

* TELUS Advertising Services Edmonton reported in TELUS Advertising Services

Operating revenues were comprised of:

			% of Total	
	1996	1995	1996	1995
		(millions)		
Local service	$1,028.7	$ 797.6	55.3	48.8
Long distance service	698.6	709.7	37.6	43.4
Other	133.0	127.5	7.1	7.8
Operating revenues	$1,860.3	$1,634.8	100.0	100.0

Operating revenues increased by $225.5 million (14%). The majority of the increase was in local service revenue at TELUS Mobility, TELUS Communications, and TELUS Edmonton. Long distance revenue decreased from last year due to the effect of increased competition on TELUS Communications' revenue.

Local Service

	1996	1995	Change	%
Revenue (millions)	$1,028.7	$ 797.6	$231.1	29.0
Network access lines (000's)	1,765.8	1,702.2	63.6	3.7
Cellular subscribers (000's)	328.4	237.8	90.6	38.1

Local service revenue is recorded by TELUS Communications, TELUS Edmonton, and TELUS Mobility.

Strong growth in TELUS Mobility subscribers increased local revenue by $83.0 million, while local rate increases in January and February 1996 at TELUS Communications increased revenue by $70.1 million. Inclusion of a full year of TELUS Edmonton revenue compared with 10 months in 1995 added approximately $31.0 million. Local access contribution payments from long distance competitors to TELUS increased by $19.6 million. Revenue from enhanced services such as Call Display and Call Answer, and from Internet increased by $16.5 million (42.1%). Growth in network access lines also contributed to the local revenue increase.

Long Distance Service

	1996	1995	Change	%
Revenue (millions)	$ 698.6	$ 709.7	$(11.1)	(1.6)
Minutes (millions)	2,034.8	2,114.2	(79.4)	(3.8)

Long distance service revenue is recorded by TELUS Communications and TELUS Mobility.

Long distance revenue at TELUS Communications decreased $64.2 million from the loss in minute volume combined with lower prices from new saving plans such as *Your Way*™ Long Distance. This was partially offset by $34.7 million reduced payments to the revenue sharing plans. Market share was 68% at the end of 1996 compared with 78% at the end of 1995. Long distance revenue at TELUS Mobility increased by $18.4 million (84%) due to subscriber growth and extended cellular coverage in remote areas.

Other

	1996	1995	Change	%
Revenue (millions)	$133.0	$127.5	$5.5	4.3

Other revenue consisted primarily of directory advertising and publishing revenue at TELUS Advertising companies, which was unchanged from last year. The remaining components included building and equipment rentals, and amortization of Individual Line Service government grants.

Operating expenses

Operating expenses by major TELUS subsidiary were as follows:

	1996	1995	Change	%
		(millions)		
TELUS Communications	$1,028.0	$ 970.7	$ 57.3	5.9
TELUS Edmonton	224.4	172.1	52.3	30.4
TELUS Mobility	153.7	108.4	45.3	41.8
TELUS Advertising Services	76.8	79.9	(3.1)	−4.0
Other subsidiaries and corporate	66.1	25.2	40.9	161.3
Consolidation eliminations	(96.9)	(57.6)	(39.3)	−67.6
Operating expenses	$1,452.1	$1,298.7	$153.4	11.8

Operating expenses were comprised of:

			% of Total	
	1996	1995	1996	1995
		(millions)		
Operations	$1,014.1	$ 895.9	69.8	69.0
Depreciation and amortization	438.0	402.8	30.2	31.0
Operating expenses	$1,452.1	$1,298.7	100.0	100.0

Operations expense

	1996	1995	Change	%
Operations (millions)	$1,062.7	$ 895.9	$118.2	13.2
EBITDA margin (%)	45.5	45.2	0.3	—
Employees	8,858	8,717	141	1.6

The major increases were at TELUS Mobility and included increased dealer costs and general operating expenses associated with the growing subscriber base ($24.8 million), higher network interconnection charges ($7.0 million), and higher salaries and benefits ($5.9 million).

The increase due to recognition of two additional months of TELUS Edmonton operations expense was about $28.0 million. Advertising and promotions expense including rebranding costs increased by $18.0 million for all of TELUS, while reorganization costs for the Communications and Advertising companies, recognized in 1996, were approximately $10.0 million. TELUS Communications' operations expense increase included $15.2 million in higher compensation as company specific performance targets that were not achieved in 1995 were met in 1996.

Depreciation and amortization

	1996	1995	Change	%
Depreciation and amortization (millions)	$438.0	$402.0	$35.2	8.7
Average depreciation rate %	7.8	7.7	0.1	—

A growing fixed asset base is the primary reason for the increase in depreciation and amortization expense in TELUS Edmonton ($13.7 million), TELUS Communications ($8.2 million), and TELUS Mobility ($7.6 million). Amortization of goodwill for the purchase of TELUS Edmonton increased by $4.1 million, reflecting a full year's amortization.

Income from operations

The growth in income from operations led to an improved operating margin of 21.9% (20.5% in 1995). Income from operations by major TELUS subsidiary was as follows:

	1996	1995	Change	%
		(millions)		
TELUS Communications	$283.0	$240.6	$ 42.4	17.6
TELUS Edmonton	63.6	56.2	7.4	13.1
TELUS Mobility	101.8	48.1	53.7	111.4
TELUS Advertising Services	14.7	12.2	2.5	20.1
Other subsidiaries and corporate	(54.9)	(21.0)	(33.9)	−160.7
Income from operations	$408.2	$336.1	$ 72.1	21.4

Interest Expense and Other

	1996	1995	Change	%
		(millions)		
Interest expense, net	$140.2	$146.2	$(6.0)	−4.1
Other	(7.0)	(31.7)	24.7	77.9

Interest income is netted against interest expense. Net interest expense decreased due to lower interest rates and lower debt levels, partly offset by lower interest income. Interest expense relating to the purchase of TELUS Edmonton decreased by $9.9 million. This was due to repayment of part of the five year floating rate bank facility and long-term notes in TELUS Edmonton, as well as lower interest rates.

TELUS Communications' net interest expense decreased $2.4 million due primarily to repayment of debt in March 1996. The average net borrowing cost in 1996 was approximately 9.0% (9.5% in 1995).

'Other' reflects non-operational and non-recurring transactions. The major transaction in 1996 was a $6.0 million reduced contribution to certain benefit plans. In 1995, the major transactions were a $4.5 million reduced contribution to certain benefit plans and a $28.3 million gain on the purchase and sale of a former investment.

Income Taxes

	1996	1995	Change	%
		(millions)		
Income taxes	$ 8.1	$ 17.3	$ (9.2)	−53.1

The income tax expense in 1996 was entirely large corporations tax. In 1995, a $9.5 million income tax expense associated with the purchase and sale of a former investment was recorded along with $8.0 million in large corporations tax.

Discontinued Operations

	1996	1995	Change	%
		(millions)		
Discontinued operations	$(24.3)	$(13.6)	$(10.7)	−79.1

TELUS sold its 50% interests in Telecential and ISM Alberta in 1997. The effects on operating income, net interest expense and income taxes have been reclassified to discontinued operations.

Liquidity and Capital Resources

Cash and Cash Equivalents

	1996	1995	Change	% Change
			(millions)	
Cash and cash equivalents	$76.4	$256.7	$(180.3)	(70.2)

In 1996, cash and cash equivalents returned to normal operating levels. The 1995 year end cash amount included proceeds of a $200 million debenture, which TELUS Communications used to pay a $150 million debenture in March 1996.

Operating Activities

	1996	1995	Change	% Change
			(millions)	
Cash provided by operating activities	$633.2	$585.4	$47.8	8.2
Cash provided by operating activities relating to discontinued operations	$ 22.2	$ 11.4	$10.8	95.0

The increase in cash provided by operating activities in 1996 was primarily the result of an increase in income of $51.8 million and higher depreciation and amortizations of $45.5 million. This was partially offset by higher working capital changes of $24.7 million in 1996, and by the effect in 1995 of the $16.8 million deferred gain on early termination of an interest rate swap agreement.

Dividends

	1996	1995	Change	% Change
			(millions)	
Dividends	$130.8	$128.6	$2.2	1.7

The increase in dividend payments in 1996 was the result of additional equity issued under the dividend reinvestment and share purchase plan, the TELUS employee share purchase plan and the executive stock option plan. The quarterly dividend payment remained unchanged at $0.23 per common share.

Financing Activities

	1996	1995	Change	% Change
			(millions)	
Cash provided (used) by financing activities	$(244.8)	$591.7	$(836.5)	−141.4
Cash provided by financing activities relating to discontinued operations	$ 3.5	$ 29.6	$ (26.1)	−88.2

During 1996, $287 million of long-term debt was repaid and only a negligible amount of long-term debt was issued. A $150 million 10.05% debenture was repaid by TELUS Communications, having been prefunded during 1995. In addition, $105 million of the TELUS $490 million five year floating rate bank facility was repaid in April 1996.

TELUS Edmonton repaid $24.2 million in long-term debt in 1996 leaving $126.2 in long term debt owing at year-end 1996. Other repayments of long-term debt included capital lease obligations by TELUS Edmonton, as well as mortgage payments.

The $42.9 million issue of common shares in 1996 ($28.9 million in 1995) was comprised of $26.8 million in shares under the dividend reinvestment share purchase plan, $10.7 million in shares under the employee share purchase plan, and an additional $5.4 million in shares from the executive stock option plan.

Investing Activities

	1996	1995	Change	% Change
			(millions)	
Cash used by investing activities	$372.3	$813.0	$(440.7)	−54.2
Cash used by investing activities related to discontinued operations	$ 91.3	$ 86.3	$ 5.0	5.9

Cash used by investing activities was significantly lower in 1996 largely due to the impact of the TELUS Edmonton purchase, which accounted for $467.5 million of the 1995 amount. Capital expenditures increased in 1996.

Capital Expenditures by Major Subsidiary

	1996	1995	Change	% Change
			(millions)	
TELUS Communications	$230.3	$272.7	$(42.4)	(15.5)
TELUS Edmonton	67.8	44.6	26.2	52.0
TELUS Mobility	73.3	50.8	22.5	44.3
TELUS Advertising Services	6.9	3.7	3.2	86.5
Other	16.4	4.7	11.7	248.9
Capital expenditures	$394.7	$376.5	$ 18.2	4.8

Capital expenditures in TELUS Communications were lower in 1996 due to reduced network expenditures and completion of both the Advanced Intelligent Network (AIN) platform and the Billing System Replacement initiative in 1995. TELUS Edmonton capital expenditures were higher in 1996, since 1995 included only ten months results, and due to expenditures for basic and enhanced network projects, terminal rental and information system projects.

TELUS Mobility added 83 cell sites in 1996, of which 27 increased area coverage. The remaining 56 cell sites, and the addition of a switch improved network capacity and signal reception. Capital expenditures were also made in 1996 by TELUS Advanced Communications and TELUS Marketing Services.

Credit facilities

TELUS Communications maintains a short-term commercial paper program with an approved maximum of $300 million supported by committed bank credit facilities as needed. At the end of 1996, no commercial paper was outstanding. TELUS negotiated a $200 million revolving term credit facility, which replaced credit facilities of $100 million with TELUS and $175 million with TELUS Communications. Short-term credit facilities of $25 million have been arranged for each of these companies.

TELUS Communications established an unsecured $400 million medium term note program in August 1996 by way of a short form shelf prospectus. The prospectus has a two year term and provides TELUS Communications with the flexibility to issue notes with maturities of one to thirty years to finance maturing long-term notes, capital expenditures and for other general corporate purposes. No advances were outstanding at year-end under either of these credit facilities.

Liquidity and Capital Resource Ratios

	1996	1995	Change
Debt to total capitalization	46.8%	52.6%	−5.8%
Net debt to total capitalization (net of sinking fund assets)	45.3%	51.5%	−6.2%
Cash flow to net long-term debt	37.7%	29.8%	7.9%
Construction funded internally	130.5%	127.3%	3.2%

The debt component as a proportion of total capitalization decreased in 1996 due to the effects of the repayment of $287 million in long-term debt and an increase in equity. Cash flow to net long-term debt has increased due to improved cash from operating activities and the reduction in long-term debt. The increase in cash from operating activities, partially offset by an increase in net capital expenditures, has resulted in an improvement in the construction funded internally ratio.

Credit Ratings

	1996	1995
CBRS — commercial paper	A-1	A-1
CBRS — debentures/notes	A	A
DBRS — commercial paper	R-1 (middle)	R-1 (middle)
DBRS — debentures/notes	A (high)	A (high)

In April 1996, Canadian Bond Rating Service (CBRS) reaffirmed TELUS Communications' commercial paper and debenture ratings and upgraded the rating outlook from negative to stable. In August 1996, CBRS assigned a single A rating with a stable outlook to TELUS Communications' $400 million medium term note program, citing a strong franchise area, modern network, improvements in efficiencies and financial outlook. In May 1996, DBRS confirmed TELUS Communications' credit ratings for senior debentures and commercial paper, but changed the trend from stable to negative. Dominion Bond Rating Service (DBRS) cited increased long distance competition and the potential change in the assessment of TELUS Communications' income tax liabilities. In August 1996, DBRS confirmed the rating of A (high) with a negative outlook for the TELUS Communications $400 million medium term note program. The tax assessment was settled favourably in late December 1996.

TELUS CORPORATION

AUDITED COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995 AND NOTES THERETO TOGETHER WITH AUDITORS' REPORT THEREON

AUDITORS' REPORT

TO: THE SHAREHOLDERS OF TELUS CORPORATION

We have audited the consolidated balance sheet of TELUS Corporation as at December 31, 1997, 1996 and 1995 and the consolidated statements of income, retained earnings and changes in financial position for the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for the three years then ended in accordance with generally accepted accounting principles.

(Signed) DELOITTE & TOUCHE
Chartered Accountants
Edmonton, Alberta
February 10, 1998, except as to Note 19
which is as of October 19, 1998.

TELUS CORPORATION

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31

	1997	1996	1995
	(thousands of dollars except per share amounts)		
Operating revenues			
Local service	$1,195,129	$1,028,718	$ 797,617
Long distance service	676,318	698,602	709,734
Other	148,376	132,969	127,467
	2,019,823	1,860,289	1,634,818
Operating expenses			
Operations	1,063,070	1,014,086	895,805
Depreciation and amortization	535,885	438,011	402,868
	1,598,955	1,452,097	1,298,673
Income from operations	420,868	408,192	336,145
Interest expense, net (Note 3)	97,167	140,181	146,178
Other (Note 4)	809	(6,991)	(31,693)
	97,976	133,190	114,485
Income before income taxes	322,892	275,002	221,660
Income taxes (Note 5)	168,140	8,119	17,322
Income from continuing operations before Extraordinary item	154,752	266,883	204,338
Discontinued operations (Note 6)	127,290	(24,280)	(13,553)
Income before extraordinary item	282,042	242,603	190,785
Extraordinary item (Note 7)	(285,207)	—	—
Net income (loss)	$ (3,165)	$ 242,603	$ 190,785
Earnings (loss) per common share			
— From Continuing Operations	$ 1.07	$ 1.87	$ 1.46
— From Discontinued Operations	$ .88	$ (.17)	$ (.10)
— From Extraordinary item	$ (1.97)	$ —	$ —
Net	$ (.02)	$ 1.70	$ 1.36

TELUS CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31

	1997	1996	1995
	(thousands of dollars)		
Retained earnings, beginning of year			
As previously reported	$ 461,388	$ 350,143	$ 288,401
Change in accounting policy (Note 2)	399,895	—	—
As restated	861,283	350,143	288,401
Net income (loss)	(3,165)	242,603	190,785
Premium paid on repurchase of shares (Note 13)	(129)	—	—
Dividends on common shares	(133,497)	(131,358)	(129,043)
Retained earnings, end of year	$ 724,492	$ 461,388	$ 350,143

TELUS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31

	1997	1996	1995
	(thousands of dollars)		
Operating Activities			
Income before extraordinary item	$ 282,042	$ 242,603	$ 190,785
Items not affecting cash			
Depreciation and amortization	535,885	438,011	402,868
Allowance for funds used during construction	(2,706)	(2,526)	(6,960)
Amortization of workforce reduction costs	38,548	35,903	31,615
Gain on disposal of discontinued operations	(190,290)	—	—
Future income taxes	158,653	—	—
Other	(26,681)	(1,423)	5,795
Sinking fund earnings	(10,039)	(9,134)	(8,279)
	785,412	703,434	615,824
Net change in non-cash working capital	62,385	(70,199)	(30,418)
Cash provided by operating activities	847,797	633,235	585,406
Cash provided by operating activities related to discontinued operations	14,106	22,177	11,372
Dividends	(133,091)	(130,768)	(128,626)
Financing Activities			
Issue of long-term debt	—	—	690,766
Repayment of notes payable, net	—	—	(96,731)
Repayment of long-term debt	(423,298)	(285,678)	(29,275)
Sinking fund contributions	(2,000)	(2,000)	(2,000)
Issue of common shares, net	36,060	42,907	28,893
Cash provided (used) by financing activities	(389,238)	(244,771)	591,653
Cash provided (used) by financing activities related to discontinued operations	(32,874)	3,490	29,621
Investing Activities			
Capital expenditures	(535,871)	(394,691)	(376,524)
Items not affecting cash	5,756	9,775	17,641
Proceeds from sale of assets	8,519	28,667	3,799
Acquisition of TELUS Edmonton Holdings Inc.	—	—	(467,503)
Other	(875)	(16,081)	9,567
Cash used by investing activities	(522,471)	(372,330)	(813,020)
Cash provided (used) by investing activities related to discontinued operations	403,035	(91,343)	(86,294)
Increase (decrease) in cash	187,264	(180,310)	190,112
Cash and short-term deposits, beginning of year	76,369	256,679	66,567
Cash and short-term deposits, end of year	$ 263,633	$ 76,369	$ 256,679

TELUS CORPORATION

CONSOLIDATED BALANCE SHEET

As at December 31

	1997	1996	1995
	(thousands of dollars)		
Assets			
Current			
Cash and short-term deposits	$ 263,633	$ 76,369	$ 256,679
Accounts receivable	369,838	346,417	295,387
Current portion of future income taxes (Notes 2 and 5)	147,784	—	—
Inventories for resale	39,879	40,335	20,156
Prepaid expenses and other	19,669	25,048	19,193
	840,803	488,169	591,415
Property, plant and equipment, net (Note 8)	2,649,569	3,370,725	3,338,188
Other assets			
Deferred charges (Note 9)	10,440	107,002	205,382
Investments (Note 10)	19,352	20,488	20,488
Sinking fund assets (Note 11)	112,189	100,150	89,016
Other	46,221	49,057	32,560
Future income taxes (Notes 2 and 5)	493,014	—	—
Goodwill (Note 2)	63,604	268,451	294,720
	744,820	545,148	642,166
	$4,235,192	$4,404,042	$4,571,769
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 435,295	$ 375,720	$ 353,014
Dividends payable	33,461	33,055	32,465
Service billed in advance	77,735	71,920	61,879
Current portion of long-term debt (Note 12)	265,418	266,009	187,337
	811,909	746,704	634,695
Deferred credits			
Deferred revenue	95,390	113,793	133,047
Deferred income taxes (Note 2)	—	9,525	88,700
	95,390	123,318	221,747
Long-term debt (Note 12)	1,030,471	1,511,588	1,867,032
Shareholders' Equity			
Share capital (Note 13)	1,572,930	1,536,870	1,493,963
Cumulative foreign currency translation adjustment	—	24,174	4,189
Retained earnings	724,492	461,388	350,143
	2,297,422	2,022,432	1,848,295
	$4,235,192	$4,404,042	$4,571,769

On Behalf of the Board:

(Signed) HAROLD P. MILAVSKY
Director

(Signed) JAMES S. PALMER
Director

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

The term "Company" is used to mean TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries and partnerships.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(a) *Basis of Consolidation*

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of its 50%-owned partnerships. Principal wholly-owned subsidiaries are TELUS Communications Inc., TELUS Edmonton Holdings Inc. (including its wholly-owned subsidiaries TELUS Communications (Edmonton) Inc. and TELUS Advertising Services (Edmonton) Inc.), TELUS Mobility Inc., TELUS Advertising Services Inc., TELUS Marketing Services Inc., TELUS Advanced Communications Inc. and TELUS Information Services Inc. The 50% interest in Telecential Communications and ISM Information Systems Management (Alberta) partnerships were disposed of during 1997 (Note 6).

All significant intercompany transactions have been eliminated.

(b) *Regulatory Accounting Principles*

In the fourth quarter of 1997, TELUS Communications Inc. ceased the use of those regulatory accounting practices (RAP) which were applicable to regulated telephone companies in Canada and replaced them with generally accepted accounting principles (GAAP). These accounting changes were required due to recent developments in the Canadian regulatory environment and are more fully described in Note 7.

(c) *Regulation*

TELUS Communications Inc., TELUS Communications (Edmonton) Inc. and TELUS Mobility Inc. are regulated under the *Telecommunications Act* by the Canadian Radio-television and Telecommunications Commission (the "CRTC"). In its role as regulator of TELUS Communications Inc. and TELUS Communications (Edmonton) Inc., the CRTC has traditionally practiced earnings regulation, setting the allowed rate of return, approving tariffs, and approving interconnection and working agreements with other carriers. It also periodically issues directives which affect the accounting treatment of specific items in the companies' accounts and reviews TELUS Communications Inc. construction program and intercorporate transactions. TELUS Mobility Inc. is subject to regulation for all cellular, paging and personal communications services with respect to network access and privacy issues and agreements with foreign carriers.

1. Summary of Significant Accounting Policies (Continued)

To assist TELUS Communications (Edmonton) Inc. and TELUS Advertising Services (Edmonton) Inc. in the transition to CRTC regulation, the Governor General in Council issued a Directive specifying certain terms and conditions on which the CRTC will regulate the local exchange and directory operations until October 1998. The CRTC has advised that a proceeding will be initiated to examine the regulatory framework for TELUS Communications (Edmonton) Inc. when the Directive expires.

Telecom Decision CRTC 95-21 ("Decision 95-21") implemented the interim regulatory framework set out in Telecom Decision CRTC 94-19 ("Decision 94-19") applicable to TELUS Communications Inc. to be effective from January 1, 1995 until January 1, 1998. Decision 95-21 split TELUS Communications Inc.'s rate base into a Utility segment subject to earnings regulation and a Competitive segment subject to reduced regulatory overview.

Telecom Decision CRTC 97-9 ("Decision 97-9") established the framework for price cap regulation to commence January 1, 1998 for TELUS Communications Inc.. The classification of TELUS Communications Inc.'s Utility segment services into capped and uncapped categories received interim approval in Telecom Decision CRTC 97-18 ("Decision 97-18"). TELUS Communications Inc. also received interim approval for a rate rebalancing increase of $1.10 for local residential services in Decision 97-18, and interim approval of the percent subsidy requirement by rate band based on the interim residential service rates. The CRTC is expected to issue its final decision on these matters on March 1, 1998.

(d) *Financial Instruments*

The Company's financial instruments consist of cash and short-term deposits, accounts receivable, investments, sinking fund assets, accounts payable and accrued liabilities, dividends payable and long-term debt.

The carrying value of cash and short-term deposits, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair values of the Company's sinking fund assets are determined by quoted market prices at the balance sheet date. The fair value of the Company's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities, as disclosed in Note 12(g).

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its short-term deposits, sinking fund assets and long-term debt. When appropriate, the Company has used derivative instruments to reduce its exposure to interest rate risk. At December 31, 1997, the Company has no derivative financial instruments outstanding.

The Company is exposed to credit risk with respect to its short-term deposits and sinking fund assets. Credit risk is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized financial institutions and other credit worthy counter-parties. An ongoing review is performed to evaluate changes in the status of counter-parties.

The Company is exposed to credit risk with respect to its accounts receivable, however, this is minimized by the Company's large customer base which covers all business sectors in Alberta. The Company follows a program of credit evaluations on customers and limits the amount of credit

1. Summary of Significant Accounting Policies (Continued)

extended when deemed necessary. The Company maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

(e) *Inventories for Resale*

Inventories for resale are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

(f) *Property, Plant and Equipment*

Property, plant and equipment is recorded at original cost and includes materials, direct labor and certain overhead costs associated with construction activity. TELUS Communications Inc. also includes an allowance for funds utilized during construction which provides for a return on total capital invested in new telephone plant during the construction period. This allowance reduces current interest expense and is expected to be realized over the service life of the plant.

Materials and supplies are valued at average cost.

(g) *Depreciation*

Depreciation is provided on a straight-line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups. TELUS Communications Inc.'s and TELUS Communications (Edmonton) Inc.'s depreciation rates are subject to review and approval by the CRTC. The composite depreciation rate for the year ended December 31, 1997 was 9.51% (1996 — 7.79%; 1995 — 7.65%).

When depreciable property, plant and equipment is sold by the Company, the original cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statement of Income. When depreciable property, plant and equipment is retired by TELUS Communications Inc. and TELUS Communications (Edmonton) Inc., the original cost of retired property is charged to accumulated depreciation and any disposal proceeds less the costs of removal, are taken into income.

(h) *Investment in Leases*

Unearned finance income related to sales-type leases is recognized over the lease term to produce a constant rate of return on the investment in the lease.

(i) *Goodwill*

Goodwill represents the excess of the cost of acquired businesses over the fair value attributed to their identifiable net assets less the amount deducted in 1997 in accordance with the retroactive accounting policy change for income taxes (see Note 2). The goodwill, which arose from the acquisition of TELUS Edmonton Holdings Inc. in March 1995, is being amortized on a straight-line basis over a 12 year period (1996 and 1995 — other goodwill was amortized over 15 years). As there have been no material changes to the operating lines of business of TELUS Edmonton Holdings Inc. since acquisition, management estimates the value of the goodwill to be not less than the unamortized balance at December 31, 1997.

1. Summary of Significant Accounting Policies (Continued)

(j) *Deferred Charges*

Discounts on long-term debt are amortized to interest expense on a straight-line basis over the remaining lives of the related liabilities. Where interest coupons and residuals are held as separate investments in sinking funds, discounts are amortized over the period to maturity or call date so as to produce a constant rate of return on the investments. Other deferred charges are amortized to Operating Expenses on a straight-line basis.

(k) *Deferred Revenue*

Deferred revenue relates primarily to contributions from the Government of Alberta under the Individual Line Service program, which is recognized as income on a straight-line basis over the estimated useful life of the related assets. The amount to be recognized as income within one year is included with Service Billed in Advance in the Consolidated Balance Sheet.

(l) *Translation of Foreign Currencies*

Monetary assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the date of the transaction. Gains or losses arising from translation of non-current monetary items are deferred and amortized over the remaining lives of the assets and liabilities.

All of the assets and liabilities of the Company's foreign operation are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date; revenue and expense items are translated at the average rates of exchange for the year. Gains or losses arising from translation are deferred and recorded in the Consolidated Balance Sheet under the heading Cumulative Foreign Currency Translation Adjustment.

(m) *Income Taxes*

Commencing January 1, 1997, the Company and its subsidiaries adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants (see Note 2). Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Prior to January 1, 1997, the Company and its subsidiaries, other than TELUS Communications (Edmonton) Inc. and the Utility segment of TELUS Communications Inc. used the deferral method of accounting for income taxes. TELUS Communications (Edmonton) Inc. and the Utility segment of TELUS Communications Inc., as directed by the CRTC, used the deferral method except that adjustments to income tax assets or liabilities for changes to the statutory income tax rates were taken into earnings in the year in which the change occurred. Where such a treatment would have a significant impact on net income, the CRTC may have considered a longer amortization period.

(n) *Research and Development*

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production or, in the case of serviceable property, plant and equipment, are included in

1. Summary of Significant Accounting Policies (Continued)

the appropriate property group and are depreciated over its estimated useful life. Research and development costs incurred during the year amounted to $70,526,000 (1996 — $54,570,000; 1995 — $61,632,000).

2. Change in Accounting Policy

In the fourth quarter of 1997, the Company changed its policy for accounting for income taxes and the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants were adopted effective January 1, 1997. The provisions were applied retroactively without restatement of prior period financial statements. At January 1, 1997, Future Income Tax Assets of $569,659,000 were recorded and the deferred income tax liability of $9,500,000 was reversed. The Future Income Tax Assets included $179,264,000 related to subsidiaries that were acquired prior to January 1, 1997 and accordingly, this amount reduced the goodwill previously recorded for such acquisitions. The remaining balance of the Future Income Tax Assets in the amount of $399,895,000 (of which the current portion is $205,052,000) has been credited to Retained Earnings at January 1, 1997.

3. Interest Expense

	Year Ended December 31		
	1997	1996	1995
	(thousands of dollars)		
Interest: Long-term debt	$115,827	$157,363	$164,753
Other	2,218	1,075	9,328
	118,045	158,438	174,081
Less: Sinking fund income	10,039	9,134	8,279
Allowance for funds used during construction	2,706	2,526	6,960
Interest income	8,133	6,597	12,664
	20,878	18,257	27,903
	$ 97,167	$140,181	$146,178

4. Other

	Year Ended December 31		
	1997	1996	1995
	(thousands of dollars)		
Gain on purchase and sale of interest in Telecential	$—	$ —	$(28,339)
Other	809	(6,991)	(3,354)
	$809	$(6,991)	$(31,693)

During 1995 the Company realized a gain on the purchase and subsequent sale of a former partner's 50% interest in Telecential Communications ("Telecential"). This acquired interest was in addition to the 50% interest already owned by the Company. The sale terms included an option to sell the Company's remaining 50% interest in Telecential for an amount equal to the 1995 sale price plus future funds invested. This option was exercised by the Company in 1997 (Note 6).

5. Income Taxes

As described in Notes 1(m) and 2, the Company changed its method of accounting for income taxes at January 1, 1997.

The balance of future income taxes at December 31, 1997 represents the future benefits of temporary differences between the tax and accounting bases of assets and liabilities, consisting mainly of Additional Tax Deductions (ATD's) and losses available to be carried forward for tax purposes to the extent that they are likely to be realized.

The Company is entitled to a portion of the benefit of income tax savings, which will result from the utilization, by TELUS Communications Inc. of its ATD's. The CRTC determined the amount of this shareholder entitlement. The entitlement is being recognized by the Company as increased revenue in the Consolidated Statement of Income. Revenues in respect of the entitlement recognized during the year amounted to $32,014,000 (1996 — $26,600,000; 1995 — $33,155,000). In 1997, the CRTC approved payment of the remaining balance of $32,538,000 in 1998.

Revenues in respect of Shareholder Entitlement for TELUS Communications (Edmonton) Inc., amounted to $21,000,000 in each of the years 1997, 1996 and 1995. The total Shareholder Entitlement is estimated to be $175,000,000 and will be recorded pursuant to a schedule to be approved by the CRTC.

Major components of income tax expense before extraordinary item and discontinued operations are as follows:

	Year Ended December 31		
	1997	1996	1995
	(thousands of dollars)		
Current tax	$ 33,613	$8,119	$ 7,822
Future income tax	134,527	—	9,500
	$168,140	$8,119	$17,322

5. Income Taxes (Continued)

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the accounts:

	Year Ended December 31					
	1997		1996		1995	
	(thousands of dollars)	(%)	(thousands of dollars)	(%)	(thousands of dollars)	(%)
Income before income taxes	$322,892		$275,002		$208,275	
Statutory income tax	$144,074	44.6	$122,706	44.6	$ 92,865	44.6
Adjusted for the effect of:						
Allowance for funds used during construction	—	—	(700)	(0.1)	(1,850)	(0.9)
Realization of additional tax deductions	—	—	(109,301)	(39.7)	(65,900)	(31.6)
Capitalized to deferred charges	—	—	—	—	(21,300)	(10.2)
Non-taxable portion of capital gain	—	—	—	—	(3,158)	(1.5)
Non-deductible portion of amortization of acquired assets	2,960	1.0	3,760	1.4	3,460	1.7
Other	13,431	4.1	(16,465)	(6.0)	5,383	2.5
Income taxes before the undernoted	160,465	49.7	—	—	9,500	4.6
Large corporations tax	7,675	2.4	8,119	3.0	7,822	3.8
Income taxes	$168,140	52.1	$ 8,119	3.0	$ 17,322	8.4

In 1995, management determined that a pending reassessment from Revenue Canada would result in an income tax liability of $79,200,000 of which $21,300,000 related to 1995. As a result, the Company recorded a deferred tax liability of this amount and, in accordance with Telecom Decision CRTC 93-9 established a deferred charge (the "Income Tax Regulatory Deferral Account") that was to be amortized to earnings as directed by the CRTC. During 1996 the Company settled the pending reassessments from Revenue Canada. As a result of the settlement, the deferred tax liability and Income Tax Regulatory Deferral Account were reversed.

6. Discontinued Operations

On March 11, 1997, the Company sold its 50% interest in Telecential Communications Inc. (Telecential) which resulted in an after tax gain of $123,890,000. Telecential is involved in cable TV and telephone operations in the U.K.

On July 2, 1997, the Company sold its 50% interest in ISM Information Systems Management (Alberta) (ISMA) which resulted in an after tax gain of $4,775,000. ISMA provides information technology services to customers in the Province of Alberta.

6. Discontinued Operations (Continued)

For reporting purposes, the results of operations of Telecential and ISMA have been disclosed separately from those of continuing operations for the year ended December 31, 1997 and the comparative balances for 1996 and 1995 have been restated. The results of discontinued operations are summarized below:

	Year Ended December 31		
	1997	1996	1995
	(thousands of dollars)		
Operating revenues	$ 30,839	$ 54,905	$ 29,016
Operating loss	(1,375)	(24,280)	(13,553)
Gain on disposal of discontinued operations (net of income taxes of $61,625,000)	128,665	—	—
	$127,290	$(24,280)	$(13,553)

The assets and liabilities of discontinued operations are as follows:

	As at December 31		
	1997	1996	1995
	(thousands of dollars)		
Current assets	$ —	$ 33,284	$ 23,007
Property, plant and equipment	—	266,631	169,583
Other assets	—	1,577	6,279
Current liabilities	—	74,822	22,557
Long-term liabilities	—	20,226	48,540

7. Extraordinary Item

As disclosed in Note 1(b), in the fourth quarter of 1997, TELUS Communications Inc. ceased the use of those regulatory accounting practices (RAP) which were applicable to regulated telephone companies in Canada and replaced them with generally accepted accounting principles (GAAP). The accounting changes resulted from certain recent developments in regulation of the Canadian telecommunications industry, an industry which has been significantly impacted by the introduction of competition in the local exchange market.

The major development was that the CRTC revised the method of regulation for telephone companies. Instead of the traditional rate of return regulation involving the recovery of costs through rates charged to customers, the CRTC has approved an incentive form of regulation involving the setting of price caps. Under price cap regulation, the Company is not assured of recovering costs through its rates, thus, certain regulatory assets which were assets under the cost recovery method of regulation must be expensed or written-down to realizable values under price cap regulation.

7. Extraordinary Item (Continued)

As a result of the discontinuance of regulatory accounting practices, TELUS Communications Inc. recorded a fourth quarter extraordinary non-cash after-tax charge of $285,207,000 comprised of the following:

	Before Tax	After Tax
	(thousands of dollars)	
Write-down of net carrying values of property, plant and equipment	$442,700	$245,167
Elimination of regulatory asset — restructuring costs	72,300	40,040
	$515,000	$285,207

In conjunction with the discontinuance of regulatory accounting practices, and, to better reflect the rapid market and technological changes existing in the industry, TELUS Communications Inc. has revised its estimated useful lives of property, plant and equipment as follows:

	Average Life (Years)			
	1995	1996	1997	1998
Towers	30	31	18	18
Switching — digital	14	14	10	10
Transmission — digital	15	15	11	11
Underground cable	25	25	18	15
Buried cable	25	25	22	18
Customer drops	25	25	21	21
Switching and administrative software	5	5	5	3

8. Property, Plant and Equipment

	December 31				
	1997			1996	1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Net Book Value
	(thousands of dollars)				
Buildings	$ 596,786	$ 293,360	$ 303,426	$ 389,345	$ 408,627
Network equipment and outside plant	4,017,470	2,231,287	1,786,183	2,361,333	2,273,343
General equipment and other	952,776	599,361	353,415	477,070	493,840
	5,567,032	$3,124,008	2,443,024	3,227,748	3,175,810
Land	49,954		49,954	50,266	53,947
Plant under construction	150,731		150,731	80,667	94,303
Materials and supplies	5,860		5,860	12,044	14,128
	$5,773,577		$2,649,569	$3,370,725	$3,338,188

9. Deferred Charges

	Year Ended December 31		
	1997	1996	1995
	(thousands of dollars)		
Restructuring costs	$ —	$ 95,057	$104,867
Income tax regulatory deferral account (Note 5)	—	—	79,200
Discounts on long-term debt and other	10,440	11,945	21,315
	$ 10,440	$107,002	$205,382

In 1997, TELUS Communications Inc. recorded $15,791,000 (1996 — $26,093,000; 1995 — $5,250,000) to provide, primarily, for restructuring costs during the year. Restructuring costs were amortized on a five year basis as approved by the CRTC and were included in operating expenses. The remaining unamortized balance at the end of 1997 was written off and included in extraordinary item (Note 7).

The amount of amortization recorded in 1997 for these programs was $38,548,000 (1996 — $35,903,000; 1995 — $31,615,000).

10. Investments

	December 31		
	1997	1996	1995
	(thousands of dollars)		
Carried at written down cost —			
Alouette Telecommunications Inc./Telesat Canada	$19,352	$19,352	$19,352
Other	—	1,136	1,136
	$19,352	$20,488	$20,488

The fair values of the investments at December 31, 1997, 1996 and 1995 were estimated to be greater than their recorded values.

11. Sinking Fund Assets

Sinking fund assets relate to the Company's notes payable and consist of the following:

	December 31		
	1997	1996	1995
	(thousands of dollars)		
Debentures, at amortized cost:			
Government of Canada, direct and guaranteed	$ 43,930	$ 39,553	$35,614
Alberta Government Telephones Commission	56,031	50,841	46,133
	99,951	90,394	81,747
Short-term deposits	12,213	9,726	7,255
Accrued interest	25	30	14
	$112,189	$100,150	$89,016

11. Sinking Fund Assets (Continued)

Assets in the sinking fund have an approximate market value of $124,376,000 as at December 31, 1997 (1996 — $116,364,000; 1995 — $103,015,000).

The sinking fund assets have a weighted average effective interest rate of 9.9% (1996 — 10.1%; 1995 — 10.3%) and the debentures have maturity dates between November 1999 and May 2000.

12. Long-Term Debt

	December 31		
	1997	1996	1995
	(thousands of dollars)		
Notes Payable:			
10.05% due March 1996	$ —	$ —	$ 150,000
9.30% due January 1997	—	200,000	200,000
9.80% due July 1997	—	200,000	200,000
9.90% due July 1998	200,000	200,000	200,000
12.00% due November 1999 (see (a) below)	50,000	50,000	50,000
11.80% due May 2003 (see (a) below)	150,000	150,000	150,000
Other Notes with interest between 7.375% and 12.00% and maturing between 1996 and 2004 (see (b) below)	98,331	116,852	141,006
	498,331	916,852	1,091,006
9.50% Series A Debentures due August 2004 (see (c) below)	200,000	200,000	200,000
8.80% Series B Debentures due September 2025 (see (c) below)	200,000	200,000	200,000
Non-interest bearing loans	4,895	4,442	9,201
Capital leases payable (see (d) below)	5,000	32,604	28,054
Non-recourse bank loans (see (f) below)	—	35,181	31,803
Bank Credit Facility (see (e) below)	385,000	385,000	490,000
Other	2,663	3,518	4,305
	797,558	860,745	963,363
	1,295,889	1,777,597	2,054,369
Less: Current portion	265,418	266,009	187,337
	$1,030,471	$1,511,588	$1,867,032

(a) The outstanding 12.00% (due November 1999) and 11.80% (due May 2003) notes are secured by sinking fund assets of the Company. In accordance with note terms, these notes require annual sinking fund contributions of 1.00% of the principal amounts outstanding until one year prior to maturity. The 11.80% note has an early redemption provision at the Company's option during the three years prior to maturity. The other notes payable are unsecured.

(b) The Other Notes with interest between 7.375% and 12.00% are unsecured debt obligations of TELUS Edmonton Holdings Inc. which are supported by a negative pledge respecting that Company's assets and certain new issue tests. TELUS Edmonton Holdings Inc. has undertaken to defease by December 31, 1999 all payments of principal and interest which would otherwise occur after January 1, 2000. The defeasance of these notes has been reflected in the long-term debt repayments.

12. Long-Term Debt (Continued)

(c) The outstanding 9.50% Series A Debentures (due August 2004) and 8.80% Series B Debentures (due September 2025) are issued under the TELUS Communications Inc. trust indenture dated August 24, 1994 and a supplemental trust indenture dated September 22, 1995 relating to Series B Debentures only. These debentures are not secured by any mortgage, pledge or other charge. During 1995 the Company terminated an interest rate swap contract relating to the Series A Debentures and realized a gain on early termination in the amount of $16,760,000 which is being amortized and credited to interest expense over the remaining term of the Series A Debentures. The amortization of the gain resulted in an effective rate of interest on Series A Debentures in the current year of 8.79% (1996 — 8.79%; 1995 — 8.35%).

(d) The capital leases have a weighted average interest rate of 6.00% (1996 — 9.42%; 1995 — 9.87%).

(e) The Company established a $500,000,000 five year variable interest rate unsecured credit facility on January 4, 1995. The composite interest rate, on the outstanding credit facility balance as at December 31, 1997 was 4.32% (1996 — 3.64%; 1995 — 6.45%). During 1996 an additional $200,000,000 revolving credit facility was established and a $400,000,000 shelf prospectus, to permit public issues of medium term notes, was registered by TELUS Communications Inc.

(f) The Company's former 50%-owned partnership investment, Telecential Communications, had established a credit facility in the amount of $70,362,000 (British Pounds Sterling £30,000,000) on December 31, 1996 which was reduced from $328,356,000 (British Pounds Sterling £140,000,000) on December 31, 1995. Borrowings under this credit facility, which was due in 1997, bore a floating rate of interest based on the United Kingdom LIBOR rate and was secured by a charge over assets, undertakings and business carried on by Telecential Communications within certain franchise areas.

(g) The estimated fair value of the long-term debt at December 31, 1997 is $1,439,366,000 (1996 — $1,886,209,000; 1995 — $2,184,705,000).

(h) Anticipated requirements to meet long-term debt repayments and sinking fund provisions during the next five years from December 31, 1997 are as follows:

	Requirement for Long-Term Debt Repayments and Sinking Fund Provisions	Requirement to be Met by Sinking Fund Assets
	(thousands of dollars)	
1998	$267,418	$ —
1999	191,759	33,984
2000	291,241	—
2001	2,518	—
2002	3,072	—

13. Share Capital

Authorized Share Capital

Unlimited number of First Preferred Shares, issuable in series
Unlimited number of Second Preferred Shares, issuable in series
Unlimited number of Common Shares

13. Share Capital (Continued)

Issued Share Capital

	December 31			
	1997		1996	
	Number of Shares	Amount (thousands of dollars)	Number of Shares	Amount (thousands of dollars)
Common Shares				
Beginning of Year	143,719,149	$1,536,870	141,153,184	$1,493,963
Exercise of stock options	476,661	8,028	378,349	5,406
Dividend Reinvestment and Share Purchase Plan	895,615	18,361	1,595,876	26,799
Employee Share Purchase Plan	452,565	9,755	591,740	10,702
Normal course issuer bid	(7,400)	(84)	—	—
End of Year	145,536,590	$1,572,930	143,719,149	$1,536,870

	December 31, 1995	
	Number of Shares	Amount (thousands of dollars)
Special share	1	$ —
Common Shares		
Beginning of Year	139,339,576	$1,465,070
Exercise of stock options	44,568	605
Dividend Reinvestment and Share Purchase Plan	851,385	13,346
Employee Share Purchase Plan	917,655	14,942
End of Year	141,153,184	$1,493,963
		$1,493,963

Special Share

The Special Share, held by the Government of Alberta, had a special class vote which allowed the holder the right to vote against ("special vote") a proposal to effect one of the fundamental changes described in the 1990 Alberta Government Telephones Reorganization Act ("Reorganization Act"). The Special Share became redeemable by the Company on July 25, 1995 and was redeemed on July 25, 1996 at a redemption price of $1.00.

Common Shares

During 1996, the Reorganization Act was repealed. As a result, the restrictions and conditions previously imposed by this act are no longer applicable.

13. Share Capital (Continued)

Stock Option Plans

The Company has stock option plans under which directors, officers and key employees received common share purchase options at a price equal to the fair market value of the shares at the date of granting.

Year Granted	Options Granted	Options Outstanding	Average Exercise Price
1997	670,330	627,250	$20.14
1996	717,300	568,000	$16.56
1995	379,600	177,700	$16.49
1994	387,000	242,900	$16.44
1993	406,527	38,571	$12.88
1991	177,840	8,400	$15.00

The Company issued 670,330 (1996 — 717,300; 1995 — 372,600) options to purchase common shares through the stock option plans during 1997 at an average price of $20.14 (1996 — $16.56; 1995 — $16.49) per share. The quoted closing market price of TELUS shares at December 31, 1997 was $31.70 per share (1996 — $19.90 per share; 1995 — $16.00 per share). Options granted under the plans may be exercised over specific periods not to exceed seven years from the date of granting. Pursuant to a stock exchange approved grant of options with a 60 day exercise period, no additional options were granted in 1997 (1996 — nil; 1995 — 7,000 additional options were granted and exercised). To fund the purchase of shares on the exercise of 60 day options granted in 1995, 1994 and 1993, the Company provided loans which are non-interest bearing, repayable over five years and secured by the common shares issued upon the exercising of these options. The loan balance at December 31, 1997 is $112,000 (1996 — $261,100; 1995 — $381,600).

Employee Share Plan

The Company has an employee share plan under which eligible employees can purchase common shares through regular payroll deductions by contributing between 2% and 6% of pay. In 1997, the Company contributed two dollars for every five dollars contributed by an employee. In prior years, the Company contributed one dollar for every three dollars contributed by an employee. The Company records its contributions as a component of operating expenses. During 1997, the Company contributed $5,029,508 (1996 — $2,670,000; 1995 — $3,736,000) to this plan. All common shares issued to employees under the plan during the year were purchased at fair market value.

Dividend Reinvestment and Share Purchase Plans

The Company has a Dividend Reinvestment Plan and Share Purchase Plan under which eligible shareholders may acquire additional common shares through the reinvestment of dividends and optional cash payments. Shares purchased through optional cash payments are subject to a minimum investment of $100 and a maximum investment of $20,000 per calendar year. Under these Plans, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market and for reinvested dividends has the option of offering a 5% discount from the market price. Beginning in July 1997, the Company ceased offering shares and eliminated the 5% discount.

13. Share Capital (Continued)

Normal Course Issuer Bid

On August 22, 1997 the Company had a Normal Course Issuer Bid accepted by the Toronto Stock Exchange and Montreal Stock Exchange to repurchase up to 7,500,000 common shares at market prices during the 12 month period ending August 26, 1998. Under this bid, the Company repurchased 7,400 shares in 1997 for a total cost of $213,000.

14. Acquisition

Effective March 1, 1995, the Company acquired all of the outstanding shares of TELUS Edmonton Holdings Inc. for $467,503,000 including costs. The acquisition has been accounted for using the purchase method. Details of assets and liabilities acquired are as follows:

	(thousands of dollars)
Assets	$460,013
Liabilities	(287,013)
Net assets acquired	173,000
Goodwill	294,503
Total consideration	$467,503

The consolidated results of operations for the year ended December 31, 1995 include the operating results of TELUS Edmonton Holdings Inc. since the effective date of acquisition of March 1, 1995.

15. Commitments

(i) The Company is a member of Stentor, a strategic alliance with other Canadian telecommunications companies to coordinate the operation and maintenance of the national public telecommunications network, to develop and market new products and to standardize service offerings. Stentor's operating costs are borne by member companies in proportion to their interest in the alliance. The Company is committed to providing a maximum of $51,900,000 to Stentor in 1998 (actual expenditure for 1997 — $55,700,000; 1996 — $55,600,000; 1995 — $54,817,000).

(ii) The Company has entered into an agreement for the provision of data processing services. The 1998 cost under this agreement is expected to be approximately $46,000,000 (actual expenditure for 1997 — $52,399,000; 1996 — $53,379,000; 1995 — $50,752,000).

16. Segment Information

The Company operates principally in the telecommunications industry in the Province of Alberta.

17. Pensions and Other Employee Benefit Plans

(a) ***TELUS (excluding TELUS Edmonton Holdings Inc.)***

The Company maintains contributory and non-contributory defined benefit final pay pension plans that cover substantially all employees. The plans provide pensions based on length of service and final average earnings.

17. Pensions and Other Employee Benefit Plans (Continued)

Actuarial reports prepared for the Company for 1997 estimated the actuarial value of the net assets available for benefits and the accrued pension benefits as follows:

	December 31		
	1997	1996	1995
	(thousands of dollars)		
Net assets available (at market-related values)	$1,901,156	$1,761,876	$1,549,057
Accrued pension benefits	$1,621,683	$1,501,889	$1,376,364

The contributory pension plan has certain terms and conditions which limit its ability to utilize surplus in the plan to reduce future contributions. As a result, pension expense is not impacted by the excess of pension fund assets. Pension expense recorded for the year ended December 31, 1997 totalled $28,062,000 (1996 — $26,867,000; 1995 — $21,858,000).

In addition to providing pension benefits, the Company provides certain disability and group life insurance benefits for all eligible employees. The cost of these benefits is determined by an independent actuary and the annual funding requirements are paid into specific trusts. Based on recommendations from the actuary, the Company's 1997 contributions for certain employee benefit plans were reduced by $2,800,000 (1996 — $6,000,000; 1995 — $4,500,000). The normalized cost of these employee benefits is included in Operations Expense and the contribution reduction is included in Other in the Consolidated Statement of Income.

(b) ***TELUS Edmonton Holdings Inc.***

During 1997 the employees of TELUS Edmonton Holdings Inc. participated in the Local Authorities Pension Plan ("LAPP"), which is one of the plans covered by the Public Sector Pension Plans Act. The plan is a multi-employer defined benefit pension plan administered by the Province of Alberta. The Company and its employees made contributions to the plan at prescribed rates which included additional contributions required to eliminate an unfunded liability which was previously identified. For the year ended December 31, 1997, the Company recorded pension expense of $4,292,000 (1996 — $4,849,000; 1995 — $4,134,000) associated with the LAPP. This amount included payments for past service, as the legislation relating to the LAPP required additional contributions to be paid annually to ensure the elimination of the unfunded liability for the pre-1992 service by December 31, 2036. The Province was required to fund 30% of the unfunded liability, while employers and members were required to fund 35% each.

As a result of the Province of Alberta enacting regulations to permit withdrawal, effective December 31, 1997, the Company has withdrawn from the LAPP and implemented the TELUS Edmonton Pension Plan (TEPP) which is a defined benefit pension plan, the terms of which are substantially the same as the LAPP.

Early in 1998, the TEPP received an initial transfer of assets of $117,600,000 which were transferred from the LAPP. This amount is subject to adjustment to reflect the LAPP position at December 31, 1997 once it is finalized. Based on an estimate of the total assets to be transferred, and using actuarial assumptions consistent with those of the TELUS Pension Plan, the TEPP actuary projected that the TEPP had an unfunded liability of $8,171,000 which will be amortized over fifteen years. Commencing

17. Pensions and Other Employee Benefit Plans (Continued)

in 1998, annual payments of $870,000 are required to finance the unfunded liability based on the preliminary estimates. Employees will not be required to fund pre-1998 liabilities of the TEPP.

18. Comparative Financial Statements

Certain comparative financial information for 1996 and 1995 has been reclassified to conform with the 1997 presentation.

19. Subsequent Event

On October 19, 1998, TELUS Corporation and BC TELECOM Inc. signed an agreement to combine the two companies under a plan of arrangement involving a pooling of interests. The proposed transaction is expected to be completed in 1999 and is subject to the receipt of necessary shareholder and regulatory approvals.

TELUS CORPORATION

UNAUDITED INTERIM COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 30, 1998 AND SEPTEMBER 30, 1997 TOGETHER WITH MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER HIGHLIGHTS

TELUS Mobility launches digital and new rate plans

Digital wireless launch

In September, TELUS Mobility launched its advanced digital wireless service, providing the most extensive coverage in Edmonton, Calgary and surrounding areas. The digital service offers more choice for customers, access to one of the best wireless networks in North America and several new benefits. These include increased call clarity, improved battery life and enhanced features like numeric paging, call display and a more secure coding system to keep calls private.

To date, TELUS Mobility has invested $50 million in its digital network, which uses CDMA technology. The plan over the next three years is to complete a digital overlay on the existing cellular (analog) network. The company plans to deploy digital wireless in secondary centres in Alberta over the next 15 months.

TELUS Mobility's analog network continues to provide the most extensive cellular coverage in both rural and urban Alberta. The company anticipates analog coverage will continue to meet the needs of customers for many years.

New rate plans

In September, TELUS Mobility introduced new rate plans for business and residential cellular customers. YourTime and AnyTime offer simpler pricing, higher value and greater flexibility in choosing features. Customers can choose from one of four plans to meet a variety of usage needs at very competitive prices.

Canada Award for Excellence for Outstanding Quality

The National Quality Institute named TELUS Mobility the 1998 Canada Award for Excellence recipient for outstanding quality in the large company category. TELUS Mobility developed a quality-driven business model in 1991, based on shared beliefs around the importance of customers, employees, partners, shareholders and continuous improvement. This model is reflected in day-to-day leadership and operations, generating strong customer satisfaction levels and healthy employee ratings of TELUS Mobility as a great place to work. "TELUS Mobility has distinguished itself as a leader, demonstrating an unsurpassed commitment to customer service and an ongoing quest for continuous improvement," says John Perry, Vice President and Senior Quality Advisor for the National Quality Institute.

Unlimited Yaks plan generates stampede to TELUS

More than 250,000 Albertans have signed up for TELUS' new flat rate long distance plan, *Your Way Unlimited*™, making it the company's most popular residential offer ever. Introduced in late July, the new plan offers unlimited calling, anywhere in Canada, on evenings and weekends for just $19.95 per month. As a result, TELUS continued to gain back residential market share. The overall long distance market share increased by one point to 67 per cent this quarter.

The popularity of unlimited calling has placed a heavy demand on telecommunications networks across the country and within Alberta during peak calling periods. TELUS quickly deployed more than 200 employees across the province to increase network capacity by adding extra switching and trunking equipment. These network changes are expected to cost $7 million this year.

TELUS and Volt form joint venture

TELUS Advertising Services, a wholly owned subsidiary of TELUS Corporation, and Volt Information Sciences Inc. have formed a joint venture to publish community telephone directories in select U.S. markets. The partners have committed $25 million U.S. each for the acquisition, start-up, and operation of a directory publishing business in the western half of the United States.

By pooling resources, the joint venture will have the capacity to capture a significant market share in a geographic region presently undeveloped by either of the companies. The new business will operate under the supervision of a management committee represented equally by Volt and TELUS.

Year 2000 Resolution

Good progress is being made on the remediation and implementation of critical systems for the year 2000 conversion programs. Almost one-half of the non-compliant equipment in the TELUS Communications network has now been upgraded or replaced, and the remainder is to be completed by year-end. Over two-thirds of the non-critical systems have already been converted. Certification and testing for year 2000 readiness will take place in 1999. Preparations for interoperability testing of the national network services are well underway with Stentor, the alliance of regional telephone companies.

Dividend Declared

Notice is hereby given that the Board of Directors has declared a quarterly dividend of twenty-three cents ($0.23) per share on the outstanding common shares of the Corporation payable on January 15, 1999 to holders of record at the close of business on December 23, 1998.

THIRD QUARTER FINANCIAL REVIEW

Financial Highlights

	Quarter Ended September 30			
	1998	1997	Change	%
	(millions except Earnings per share and Return on common equity)			
Operating revenues	$648.1	$623.4	$ 24.7	4.0
Operating expenses	531.3	514.3	17.0	3.3
Income from continuing operations	52.7	42.1	10.6	25.2
Discontinued operations	—	5.8	(5.8)	—
Net income	52.7	47.9	4.8	10.1
Earnings per share, continuing ops.	0.37	0.29	0.08	27.6
Earnings per share, total	0.37	0.33	0.04	12.1
Cash flow*	192.7	217.0	(24.3)	(11.2)
Return on common equity (%)	8.9	6.7	2.2	—

* cash from operations before working capital changes

Financial Highlights

	Nine Months Ended September 30			
	1998	1997	Change	%
	(millions except Earnings per share and Return on common equity)			
Operating revenues	$1,970.2	$1,874.4	$ 95.8	5.1
Operating expenses	1,576.7	1,548.3	28.4	1.8
Income from continuing operations	189.8	118.6	71.2	60.0
Discontinued operations	—	128.6	(128.6)	—
Net income	189.8	247.2	(57.4)	(23.2)
Earnings per share, continuing ops.	1.31	0.82	0.49	59.8
Earnings per share, total	1.31	1.71	(0.40)	23.4
Cash flow	600.6	604.0	(3.4)	(0.6)
Return on common equity (%)	10.6	11.5	(0.9)	—

Prior period material in sales, other telephone company charges and bad debt expense, which were previously netted against operating revenue, have been reclassified to operations expense. Consequently, both revenue and operations expense in 1997 have increased by $125.2 million for the third quarter and $389.6 million for the first nine months. Operating revenue increased mainly due to growth in customers at TELUS Mobility and growth in network access lines and local enhanced services. Operating expenses increased primarily from growth in business volumes, offset partly by a decrease in depreciation expense at TELUS Communications. Net interest expense decreased mainly due to lower debt levels. The effect of the write-down of assets at the end of 1997 is an increase in net income of $36.9 million for the first nine months.

Local service revenue: $55.1 million (17%) higher for the quarter: $143.7 million (15%) higher for the first nine months

Local revenue at TELUS Mobility increased by $11.5 million (14%) for the quarter and by $46.2 million (21%) for the first nine months, when compared with the same periods last year. This was due mainly to net cellular subscriber additions of over 70,000 (18.5%) from a year ago. Revenue at TELUS Advanced Communications increased by $3.3 million in the quarter and $11.3 million for the nine-month period due mainly to higher subscriptions to Internet management services.

At TELUS Communications, growth in services such as Smart Touch, Call Answer, Centrex, and *MegaLink*™ increased revenue by $13.9 million in the quarter and $34.7 million year to date. Contribution payments from competitors increased by $9.4 million for the quarter and $16.8 million for nine months. Local rate increases added approximately $4.8 million for the third quarter and $16.8 million for the nine months. Growth in TELUS PLAnet™ subscribers resulted in higher Internet revenues of $3.3 million for the quarter and $8.8 million year to date. Growth in other local services and residential and business network access lines also contributed favorably.

Long distance revenue: $29.3 million (14%) lower for the quarter; $58.3 million (9%) lower for the first nine months

Long distance revenue at TELUS Mobility was $1.3 million (6%) higher for the quarter and $12.8 million (24%) higher for the first nine months due to strong business usage and TELUS' large Alberta cellular coverage area. Lower pricing for heavy users of long distance was introduced in the fall of 1997 and this was the main reason for moderation in the year over year revenue growth.

Third quarter results at TELUS Communications included a $13.5 million one-time reduction in revenue due to an adjustment of the 1997 revenue accrual. Otherwise, lower prices more than offset the 14% increase in long distance minutes. Revenues for transitting and terminating traffic from other Stentor members and the U.S. were relatively unchanged for the quarter and decreased by $7.4 million for the nine months due primarily to lower rates on inbound traffic. TELUS held an estimated 67% of the long distance market at the end of the quarter (67% one year ago and 66% at the end of 1997).

Other revenue: $1.1 million (1%) lower for the quarter; $10.4 million (4%) higher for the first nine months

Canadian Mobility Products (CMP) revenue increased by $7.6 million (28%) for the quarter and $16.3 million (18%) for nine months due to sales of higher value goods combined with higher sales volume (17% for the quarter; 5% for the first nine months). Partially offsetting this were lower terminal sales and retail revenue at TELUS Communications.

Operations expense: $31.2 million (8%) higher for the quarter; $72.7 million (6%) higher for the first nine months

TELUS Mobility's growing subscriber base was the main reason for the $7.8 million (15%) increase in the quarter and an $26.3 million (18%) increase in the first nine months. TELUS Advanced Communications' expenses increased by $7.7 million for the quarter and $20.1 million for nine months to support their growing customer base. At CMP, a $7.1 million (27%) increase for the quarter and $16.3 million (19%) increase for the nine month period was primarily cost of goods sold. Expenses at TELUS Marketing Services increased by $3.6 million for the quarter and $7.8 million for the nine months due mainly to the addition of a second call

centre and additional staffing. Expenses at TELUS Multimedia increased by $2.1 million in the quarter and $8.0 million for nine months due to the ongoing trial of an integrated entertainment, communications and information service.

At TELUS Communications, the operations expense increased by $6.5 million for the quarter and was relatively unchanged for the nine months. The 1997 write-off of deferred restructuring charges lowered expenses by $9.4 million in the quarter and $28.1 million for the first nine months. However, these were offset by other increased costs. Year 2000 project expenses were $1.1 million higher for the quarter and $5.6 million higher for nine months. Higher outbound call volumes overseas, to other parts of Canada and to the U.S. were the main factor in increased settlement costs of $3.8 million for the quarter and $8.5 million for nine months. Higher salaries and benefits expenses, including wage increases in new union contracts, accounted for most of the remaining increase.

Depreciation and amortization expense: $14.2 million (10%) lower for the quarter; $44.3 million (11%) lower for the first nine months

Depreciation expense at TELUS Communications decreased by $16.7 million for the quarter and $54.2 million for nine months primarily due to the write-down of capital assets at the end of 1997, as the company ceased the use of regulatory accounting practices. This was offset partially by increased depreciation expenses at Mobility, Advanced Communications, and other subsidiaries due to growing capital asset bases needed to support additional business volumes.

Net interest expense: $2.5 million (12%) lower for the quarter; $16.5 million (21%) lower for the first nine months

Interest expenses decreased mainly from lower levels of debt. In the last three months, $346.5 million of debt relating to the Ed Tel purchase in 1995 and $200 million of notes payable were repaid with cash on hand and issued commercial paper.

Other (income)

TELUS sold its 11% interest in Telesat Canada in May 1998 and recognized a $21.6 million gain before income taxes in the second quarter of this year.

Income taxes: $0.7 million (1%) lower for the quarter; $35.4 million (28%) higher for the first nine months

The income tax expenses in both 1998 and 1997 reflect the adoption of new CICA income tax reporting requirements, which increases the income tax expense to the marginal tax rate. A $3.2 million income tax expense was recorded in the second quarter for the gain on sale of Telesat Canada. Current income taxes totalled $22.5 million for the quarter and $63.0 million for the nine months, and were due largely to the profitability of TELUS Mobility.

Discontinued operations

In 1997, TELUS sold its 50% interest in Telecential (first quarter) and ISM Alberta (third quarter). Discontinued operations in 1997 reflect the net gain on the sale of Telecential and net loss in Telecential for the period prior to the sale, as well as net income in ISM Alberta for the quarter and first nine months.

Cash flow: $24.3 million (11%) lower for the quarter; $3.4 million (1%) lower for the first nine months

Cash flow from operations before changes to working capital decreased largely from the increase in current income taxes.

Capital expenditures: $11.7 million (9%) higher for the quarter; $44.2 million (15%) higher for the first nine months

Capital expenditures at Mobility increased by $21.7 million in the quarter and $41.0 million for nine months due mainly to development and implementation of a new billing system. Capital expenditures at TELUS

Communications decreased by $3.3 million for the quarter mainly due to earlier payment of MCI licenses in 1998. For the first nine months, expenditures were up by $19.6 million primarily due to spending on new initiatives including local number portability and preparation for a new area code in Alberta in 1999.

Spending on corporate-wide financial control systems decreased by $3.1 million for the quarter and by $7.1 million for nine months due mainly to implementation of software systems on January 1, 1998. Capital spending at TELUS Multimedia was $2.7 million lower for the quarter and $11.8 million lower for nine months as 1997 expenditures included construction in the three neighborhoods included in the trial.

OPERATING HIGHLIGHTS

	September 30		
	1998	1997	Change
Network access lines (000's)	1,905	1,823	4.5%
Long distance minutes (millions) (9 mos.)	1,792	1,570	14.1%
Cellular customers (000's)	453	383	18.5%
Internet customers (000's)	107	55	96.8%
Employees	9,451	8,974	5.3%

TELUS CORPORATION

CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	1998	1997	1998	1997
		(restated)		(restated)
	(unaudited) (thousands of dollars except per share amounts)			
Operating Revenues				
Local service	$386,639	$331,484	$1,116,580	$ 972,861
Long distance service	174,082	203,465	571,023	629,300
Other	87,403	88,480	282,612	272,189
	648,124	623,429	1,970,215	1,874,350
Operating Expenses				
Operations	408,744	377,574	1,220,065	1,147,397
Depreciation and amortization	122,602	136,769	356,619	400,906
	531,346	514,343	1,576,684	1,548,303
Income from Operations	116,778	109,086	393,531	326,047
Interest expense, net	18,030	20,600	60,674	77,062
Other	1,023	703	(21,184)	1,545
	19,053	21,303	39,490	78,607
Income Before Income Taxes	97,725	87,783	354,041	247,440
Income taxes	45,055	45,711	164,270	128,850
Income from Continuing Operations	52,670	42,072	189,771	118,590
Discontinued operations	—	5,788	—	128,583
Net Income	$ 52,670	$ 47,860	$ 189,771	$ 247,173
Earnings per Common Share				
From Continuing Operations	$ 0.37	$ 0.29	$ 1.31	$ 0.82
From Discontinued Operations	$ —	$ 0.04	$ —	$ 0.89
Total	$ 0.37	$ 0.33	$ 1.31	$ 1.71
Average Number of Common Shares Outstanding (thousands)	144,534	145,413	145,101	144,790

Note: Certain 1997 comparative financial information has been reclassified to conform with the 1998 presentation.

TELUS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Nine Months Ended September 30	
	1998	1997
		(restated)
	(unaudited) (thousands of dollars)	
Operating Activities		
Net income	$ 189,771	$247,173
Items not affecting cash		
Depreciation and amortization	356,619	400,906
Amortization of workforce reduction costs	—	28,126
Future income taxes	101,262	147,816
Other	(17,064)	(20,359)
Gain on disposal of discontinued operations	—	(192,233)
Gain on disposal of investments	(21,628)	—
Sinking fund earnings	(8,374)	(7,388)
	600,586	604,041
Net change in non-cash working capital	(151,795)	10,817
Cash Provided by Operating Activities	448,791	614,858
Discontinued operations	—	14,106
Dividends	(100,288)	(99,626)
Financing Activities		
Issue of long-term debt	4,011	—
Issue of short-term debt	263,000	103,599
Sinking fund contributions	—	(1,500)
Repayment of long-term debt	(601, 009)	(515,968)
Repurchase of shares	(47,668)	—
Issue of common shares	4,043	35,031
Cash Used by Financing Activities	(377,623)	(378,838)
Cash Used by Financing Activities of Discontinued Operations	—	(32,874)
Investing Activities		
Capital expenditures	(349,465)	(305,199)
Items not affecting cash	11,396	(8,399)
Proceeds from sale of investments	40,980	—
Other	29,740	(908)
Cash Used by Investing Activities	(267,349)	(314,506)
Cash Provided by Investing Activities of Discontinued Operations	—	403,035
Increase (Decrease) in Cash	(296,469)	206,155
Cash, Beginning of Period	263,634	76,369
Cash (Bank Indebtedness), End of Period	$ (32,835)	$282,524

For the purpose of this statement, cash is defined as "Cash and short-term deposits" less "Bank indebtedness".

TELUS CORPORATION

CONSOLIDATED BALANCE SHEET

	As at September 30	
	1998	1997
		(restated)
	(unaudited) (thousands of dollars)	
Assets		
Current		
Cash and short-term deposits	$ —	$ 282,524
Accounts receivable	359,441	321,164
Current portion of future income taxes	121,180	153,151
Inventories	48,230	42,134
Prepaid expenses and other	38,282	32,466
	567,133	831,439
Property, Plant and Equipment, net	2,631,600	3,009,777
Other Assets		
Deferred charges	9,757	82,765
Sinking fund assets	122,063	109,039
Other	20,503	66,946
Future income taxes	419,749	268,689
Goodwill	58,414	65,264
	630,486	592,703
	$3,829,219	$4,433,919
Liabilities		
Current		
Bank indebtedness	$ 32,835	$ —
Accounts payable and accrued liabilities	302,410	329,541
Dividends payable	33,237	33,465
Service billed in advance	75,392	83,782
Debt due within one year	283,162	266,973
	727,036	713,761
Deferred Revenue	79,897	99,595
Long-Term Debt	678,783	1,040,241
Shareholders' Equity		
Share Capital	1,563,125	1,571,901
Retained Earnings	780,378	1,008,421
	2,343,503	2,580,322
	$3,829,219	$4,433,919

On Behalf of the Board:

(Signed) HAROLD P. MILAVSKY
Director

(Signed) JAMES S. PALMER
Director

TELUS CORPORATION

EXECUTIVE COMPENSATION AND INDEBTEDNESS OF DIRECTORS AND OFFICERS EXCERPT FROM TELUS INFORMATION CIRCULAR DATED MARCH 17, 1998 FOR THE ANNUAL MEETING OF TELUS COMMON SHAREHOLDERS ON APRIL 30, 1998

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the total compensation paid during the last three fiscal years to the Corporation's Chief Executive Officer and the four other executive officers employed at December 31, 1997, who had the highest individual aggregate salary and bonuses during 1997.

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year ended December 31	Salary ($)	Bonus[1] ($)	Other Annual Compensation[2] ($)	Number of Securities Under Options Granted	All Other Compensation[3] ($)
George K. Petty	1997	450,000	418,500	NIL	55,050	20,303
President & Chief Executive	1996	400,000	260,000	NIL	75,000	17,413
Officer	1995	325,000	152,498	NIL	NIL	13,020
Frank J. Parrotta	1997	210,000	113,925	NIL	15,330	1,505
Executive Vice-President,	1996	207,783	102,375	1,624	30,000	7,310
Corporate Development	1995	196,700	79,111	3,216	18,300	8,378
Gary W. Goertz	1997	205,000	111,212	1,957	15,330	1,625
Executive Vice President,	1996	196,333	97,500	2,885	19,350	3,171
Finance & Chief Financial Officer	1995	190,000	75,160	3,202	18,300	3,144
George N. Addy	1997	214,000	116,095	NIL	15,330	8,172
Executive Vice President and Chief General Counsel	1996	76,437	42,656	NIL	18,000	4,214
H.W. Truderung	1997	200,000	121,800	1,011	21,000	8,096
President and Chief Operating	1996	162,500	80,438	1,546	19,350	6,687
Officer, TELUS Mobility Inc.	1995	143,817	43,396	2,010	9,000	3,886

Notes:

(1) Represents the variable "at risk" component of cash compensation referred to under "Report on Executive Compensation — Cash Compensation".

(2) Represents taxable benefit on interest free loans used to purchase Common Shares. The value of perquisites and benefits received by each executive officer named in the table above is less than the lesser of $50,000 and 10% of total annual salary and bonus.

(3) Represents premiums paid on term life insurance and contributions to the Employee Share Plan.

OPTION/STOCK APPRECIATION RIGHT (SAR) GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

Name	Securities Under Options/SARs Granted[1] (#)	% of Total Option/SARs Granted to Employees in Financial Year	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
G.K. Petty	55,050	8.5	20.00	20.00	Feb. 10, 2004
F.J. Parrotta	15,330	2.4	20.00	20.00	Feb. 10, 2004
G.W. Goertz	15,330	2.4	20.00	20.00	Feb. 10, 2004
G.N. Addy	15,300	2.4	20.00	20.00	Feb. 10, 2004
H.W. Truderung	21,000	3.2	20.00	20.00	Feb. 10, 2004

Note:

(1) Options granted were in respect of Common Shares of the Corporation.

AGGREGATED OPTION/SAR EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION/SAR VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options/SARs at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised in the Money Options/SARs at FY-End ($) Exercisable/ Unexercisable
G.K. Petty	NIL	NIL	225,000/105,050	3,520,000/1,404,000
F.J. Parrotta	NIL	NIL	40,500/41,430	608,738/576,081
G.W. Goertz	18,300	136,793	18,650/34,330	283,480/468,161
G.N. Addy	NIL	NIL	6,000/27,330	91,200/361,761
H.W. Truderung	NIL	NIL	38,652/36,900	633,443/482,380

PENSION PLAN TABLE

Remuneration ($)	Years of Service				
	15	20	25	30	35
125,000	34,278	45,704	57,130	68,556	79,982
150,000	41,778	55,704	69,630	83,556	97,482
175,000	49,278	65,704	82,130	98,556	114,982
200,000	56,778	75,704	94,630	113,556	122,482
225,000	64,228	85,704	107,130	128,556	149,982
250,000	71,778	95,704	119,630	143,556	167,482
300,000	86,778	115,704	144,630	173,556	202,482
400,000	116,778	155,704	194,630	233,556	272,482
500,000	146,778	195,704	244,630	293,556	342,482

This table reflects the annual pension benefit payable to senior executives from the TELUS Corporation Pension Plan and the Supplemental Retirement Plan at normal retirement age of 65 or at any time after the early retirement age of 55 with at least 15 years credited service. The pension benefit is based on 1.4% of Final Average Earnings (FAE) that are less than the Year's Maximum Pensionable Earnings (YMPE) and 2% of FAE over the YMPE, to a maximum of 35 years of service. For any service prior to 1966 the pension benefit is calculated at 2% of FAE. FAE is the average earnings of the highest 5 years of the last 10.

Effective January 1992, the Corporation established a supplementary retirement plan applicable to any employee whose pension benefit accrued under the Corporation's registered pension plan would exceed the maximum pension permitted by Revenue Canada. Amounts under the plan are payable at the time of termination of employment with the Corporation in accordance with the terms of the Corporation's pension plan. The Corporation may (i) contribute or set aside an amount in a separate fund to satisfy its obligations, (ii) purchase annuity contracts or establish any other form of security, or (iii) make payments out of general funds of the Corporation.

As at December 31, 1997, the years of credited service for each of the executive officers named in the Summary Compensation Table is as follows: G.K. Petty, 3; F.J. Parrotta, 27; G.W. Goertz, 4; G.N. Addy, 1; H.W. Truderung, 25.

COMPOSITION OF THE COMPENSATION COMMITTEE

The Compensation Committee (the "Committee") of the Board of Directors is responsible for reviewing compensation programs for the Corporation's executive officers and making recommendations to the Board of Directors on such matters. The Committee is currently composed of Richard LeLacheur (Chairman), Roy Bickell, Jack MacAllister, Walter O'Donoghue and Esther Ondrack. A majority of the members of the Committee are independent directors and none of the members are eligible to participate in any of the Corporation's compensation programs for employees.

REPORT ON EXECUTIVE COMPENSATION

The Committee utilizes the services of outside consultants and independent compensation data in determining appropriate compensation levels for its executive officers including the President and Chief Executive Officer. The Committee has adopted an executive compensation philosophy statement to assist in its evaluation and application of the executive compensation program. This philosophy also provides guidance to the design and application of compensation programs throughout the organization.

The primary objective of the executive compensation program is to promote the attainment of the Corporation's business goals and to enhance its competitive position through a clear linkage of executive compensation to results.

In support of this objective, the philosophy further states:

- Plans will be competitive, cost effective and provide an appropriate standard of living and security;
- Pay for performance will be an underlying theme for all components of the program;
- Variable compensation plans will be emphasized and every executive will have a substantial component of pay at risk relative to attainment of specific performance targets;
- Total direct compensation will be measured against compensation levels within a competitive group, such that, the program will offer executives the opportunity to earn above average pay for outstanding performance;
- Long term incentives will be linked to the Corporation's Common Share performance and the factors which contribute to sustainable increases in shareholder value; and
- Executives will be expected and encouraged to maintain share ownership in the Corporation.

Individual executive officer compensation is composed of cash, which includes base salary plus a variable component, and long term incentives in the form of stock options. Total compensation for a position is based upon a periodic evaluation of the responsibilities of that position and an annual review of market data for comparable positions in other companies. The companies included in the sample from which the market data is obtained include those in the same or similar businesses and those of comparable size. The total compensation package for each individual is compared to compensation levels as indicated by market data obtained from the review with the intention that general market comparability be maintained. The objective of the Corporation is to pay base salary at the 60th percentile when compared to market with the potential, through payment of the variable component, to pay total compensation in the top quartile of the market when results warrant.

The President and Chief Executive Officer and certain other senior executive officers of the Corporation (including the executive officers named in the Summary Compensation Table) are entitled to a specified severance payment, if their employment is terminated by the Corporation for other than just cause, disability or death, at any time within 30 months following a change of control of the Corporation. The payment obligation may also be triggered by the executive officer terminating his employment for any reason within 6 months following a change of control or for certain specified reasons at any time within 30 months following a change of control. The severance payment in such event, in the case of the President and Chief Executive Officer, is an amount equal to 3 times his annual compensation and, in the case of the other senior executive officers, is an amount equal to 2.5 times their annual compensation.

CASH COMPENSATION

Base salaries are reflective of the particular job responsibilities of an executive officer. Market related base salaries are used as reference points for establishing base salary ranges for particular job functions. Individual base salaries are dependent upon experience levels, actual job responsibilities and market comparability.

The Committee has placed a significant emphasis on the variable "at risk" component for compensation. Each year in conjunction with the strategic and operating plans of the Corporation, the Committee establishes performance targets in the areas of financial results and customer satisfaction from which the amount of variable compensation payable to executive officers is derived. Upon satisfactory achievement in all areas of

measurement, an individual's variable compensation will be payable at the designated percentage for that position.

LONG TERM INCENTIVE

The Corporation's long term incentive arrangement is designed to promote sustainable increases in shareholder value by linking the interests of the Corporation's executive officers to those of the shareholders. Additionally, provisions are in place to increase the level of share ownership by executive officers by facilitating the acquisition and retention of Common Shares of the Corporation.

To accomplish these goals, the Executive Stock Option Plan was approved by the shareholders of the Corporation at an Annual and Special Meeting held on May 2, 1991. The number of options granted under the plan takes into account the type of businesses in which the Corporation is engaged, market comparability and the present value attributable to such options. Generally options are granted annually to executive officers in amounts based on position seniority. Options are granted at the fair market value as at the date of the grant. The Corporation normally grants options to purchase Common Shares to its executive officers and selected senior managers as part of its compensation review key employees process. These options have a seven year term and vest over three years.

To further accomplish these goals, a performance share unit plan for executives has been approved by the directors and received regulatory approval, subject to shareholder approval at the Meeting. See "Performance Share Unit Plan".

The Corporation also granted options with a term of sixty (60) days to certain executive officers in February 1993, April 1994 and February 1995. Executive officers who exercised these options were loaned funds by the Corporation to purchase the Common Shares. The loans are interest free and repayable at anytime within five years. The Common Shares are held as security for the loan and all dividends paid thereon are utilized to reduce the balance of the outstanding loan. There are currently only two executive officers with such loans outstanding for a total of 5,000 shares and $68,700 owing to the Corporation.

The Committee views the combination of the above grants as providing encouragement for long term management continuity and providing the appropriate balance between reward for share appreciation and risk to the participants. The Committee further views these long term incentives as consistent with market practice and as an effective means to align the interest of management and shareholders.

EMPLOYMENT AGREEMENTS

Each of the named executive officers entered into employment contracts with the Corporation to be effective February 10, 1998. These contracts are in the same form, except for compensation and benefits, and provide for terms of employment, non-competition covenants, and change of control and retirement benefits. The severance benefits on a change of control are those set out in the change of control policy introduced by the Board in 1996 as described above.

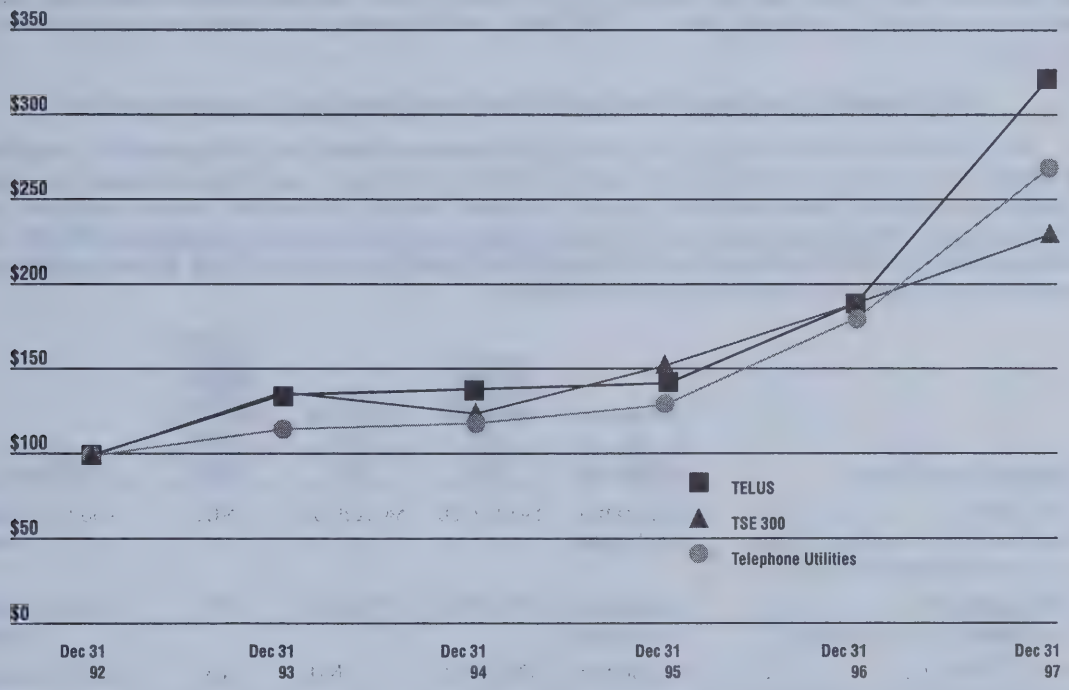
COMPENSATION FOR GEORGE K. PETTY

During 1997, Mr. Petty's base salary was $450,000. The variable component of his 1997 compensation was $418,500 reflecting the Corporation's earnings performance in 1997.

Submitted by: Richard LeLacheur, Esther Ondrack, Roy Bickell, Jack MacAllister, Walter O'Donoghue

PERFORMANCE GRAPH

The following graph compares the yearly change over the last five years in the cumulative total shareholder return on the Common Shares of the Corporation with the cumulative total return of both the TSE 300 Stock Index and Telephone Utilities sub-index, assuming a $100 investment on December 31, 1992 and reinvestment of dividends.



COMPENSATION OF DIRECTORS

Each director of the Corporation who is not an officer of the Corporation receives an annual fee for acting as a director, plus a further fee for each Board meeting attended. For the year ended December 31, 1997, these fees were set at $15,000 and $1,000, respectively. Chairs of committees receive a further annual retainer fee of $2,000 and meeting fees of $1,500 for each meeting attended. Committee members receive $1,000 for each committee meeting attended, provided that such members are not officers of the Corporation. Directors who are requested to perform additional tasks or assignments on behalf of the Board are entitled in certain circumstances to receive an additional $1,000 per diem fee for such services. Messrs. Bickell, Butler, Kimball, LeLacheur and O'Donoghue also received in 1997 an annual retainer of $3,500 and a $400 meeting fee for acting as Board members of TELUS Edmonton Holdings Inc. (formerly Ed TEL Inc.), a wholly-owned subsidiary of the Corporation.

The Board of Directors concurs with the position of The Toronto Stock Exchange as set out in its Report on Corporate Governance regarding the remuneration of Directors in the form of shares. In 1996, the Corporation adopted a share compensation plan for outside directors, which was approved by the shareholders at the Annual General Meeting held April 25, 1996. Pursuant to such plan outside directors receive one half of their annual retainer in Common Shares of the Corporation. Such shares are priced at fair market value and issued on a quarterly basis. The maximum number of shares available for issue under this plan was set at 100,000 in 1997. Each outside director acquired 325 TELUS shares pursuant to this plan in 1997.

In 1997, the Corporation adopted a stock option plan for outside directors which was approved by the shareholders at the Annual General Meeting held April 29, 1997. Pursuant to such plan in 1997, each outside director other than Mr. J.S. Palmer, was granted 2,000 stock options at an option price of $20.00. The maximum

number of options available for issue under this plan was set at 250,000 in 1997. On February 10, 1998, each outside director other than Mr. J.S. Palmer, was granted 1200 stock options at an option price of $32.90, being the fair market value determined as of the date of the grant.

In addition to the compensation set out above, Mr. J.S. Palmer, the Chair of the Corporation in 1997, received an annual retainer of $125,000 and 10,000 options granted at a value of $20.00 per share, pursuant to the Executive Stock Option Plan. On February 10, 1998, Mr. J.S. Palmer was granted 6000 further stock options under the same plan at an option price of $32.90, being the fair market value determined as of the date of the grant.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at February 28, 1998, the aggregate amount of indebtedness incurred to the Corporation or any of its subsidiaries in connection with purchases of securities of the Corporation or any of its subsidiaries (other than "routine indebtedness" under applicable Canadian securities laws), by all directors, officers, employees and former directors, officers and employees of the Corporation or any of its subsidiaries amounted to $68,700. The following table sets out the indebtedness incurred by executive officers and senior officers of the Corporation in connection with purchases of securities of the Corporation.

Name and Principal Position	Involvement of Corporation or Subsidiary	Largest $ Amount Outstanding during Year ended December 31, 1997	$ Amount Outstanding as at February 28, 1998	Financially Assisted Securities Purchases During Year ended December 31, 1997(#)	Security for Indebtedness
G.W. Goertz Executive Vice President, Finance & Chief Financial Officer	Corporation as Lender	$41,910.00	$41,220.00	NIL	3,000 Common Shares
J.M. Drinkwater Vice President and Treasurer	Corporation as Lender	$27,940.00	$27,480.00	NIL	2,000 Common Shares
H.W. Truderung President & Chief Executive Officer, TELUS Mobility Inc.	Corporation as Lender	$20,687.50	NIL	NIL	2,500 Common Shares
B. Backman-Beharry Vice President, Health, Education & Aboriginal Services	Corporation as Lender	$20,687.50	NIL	NIL	2,500 Common Shares

NOTE: All of the indebtedness referred to in the above table was incurred in February 1993 or February 1995 by the above named officers in connection with the exercise of stock options. The loans are interest free and repayable at any time within five years of the date of advance. The Common Shares of the Corporation purchased with the proceeds of the loan advances are held by the Corporation as security.

BCT.TELUS COMMUNICATIONS INC.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

APPENDIX I — BCT.TELUS COMMUNCIATIONS INC.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

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COMPILATION REPORT

To the Directors of BC TELECOM Inc. and TELUS Corporation

We have reviewed, as to compilation only, the accompanying unaudited pro forma combined consolidated balance sheet of BCT.TELUS Communications Inc. as at December 31, 1997 and September 30, 1998 and the unaudited pro forma combined consolidated statement of income and statement of changes in financial position for the year ended December 31, 1997 and the nine months ended September 30, 1998 which have been prepared for inclusion in the Joint Management Proxy Circular of BC TELECOM Inc. and TELUS Corporation dated December 8, 1998. In our opinion, the unaudited pro forma combined consolidated balance sheets and statements of income and changes in financial position have been properly compiled to give effect to the proposed arrangement and the assumptions described in the accompanying notes thereto.

(Signed) ARTHUR ANDERSEN LLP
December 8, 1998

COMMENTS FOR UNITED STATES READERS ON DIFFERENCES BETWEEN CANADIAN AND UNITED STATES REPORTING STANDARDS

The Compilation Report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma financial statements. To report in conformity with United States standards on the reasonableness of the pro forma adjustments and their application to the pro forma financial statements requires an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards we would be unable to express any opinion with respect to the compilation of the accompanying unaudited pro forma consolidated balance sheets and the unaudited pro forma statements of income and changes in financial position.

(Signed) ARTHUR ANDERSEN LLP
December 8, 1998

BCT.TELUS COMMUNICATIONS INC.

PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

(DECEMBER 31, 1997)

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET

As at December 31, 1997
(millions of dollars)
(unaudited)

	TELUS Corporation	BC TELECOM Inc. (re-classified) (2d)	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
Assets					
Current					
Cash and short-term deposits	$ 263.6	$ 133.1	$ 396.7	$ —	$ 396.7
Accounts receivable	369.8	359.9	729.7	(5.0)	724.7
Current portion of future income taxes	147.8	—	147.8	—	147.8
Inventories for resale	39.9	—	39.9	—	39.9
Prepaid expenses and other	19.7	49.1	68.8	—	68.8
	840.8	542.1	1,382.9	(5.0)	1,377.9
Property, plant and equipment, net	2,649.6	3,978.0	6,627.6	—	6,627.6
Other assets					
Deferred charges	10.4	189.8	200.2	—	200.2
Investments	19.4	29.6	49.0	—	49.0
Sinking fund assets	112.2	—	112.2	—	112.2
Other	46.2	30.3	76.5	—	76.5
Future income taxes	493.0	(265.6)	227.4	—	227.4
Goodwill	63.6	22.5	86.1	—	86.1
	744.8	6.6	751.4	—	751.4
	$4,235.2	$4,526.7	$8,761.9	$ (5.0)	$8,756.9
Liabilities					
Current					
Accounts payable and accrued liabilities	$ 435.3	$ 437.3	$ 872.6	$ 47.0	$ 919.6
Dividends payable	33.5	42.9	76.4	—	76.4
Service billed in advance	77.7	86.6	164.3	—	164.3
Current portion of long-term debt	265.4	272.1	537.5	—	537.5
	811.9	838.9	1,650.8	47.0	1,697.8
Long-term debt	1,030.5	1,250.1	2,280.6	—	2,280.6
Deferred revenue and other long-term liabilities	95.4	76.7	172.1	—	172.1
Non-controlling interest	—	7.7	7.7	—	7.7
Shareholders' Equity					
Common equity					
Share Capital:					
Common	1,572.9	1,203.1	2,776.0	(694.0)	2,082.0
Non-voting	—	—	—	694.0	694.0
Contributed surplus	—	7.3	7.3	—	7.3
Retained Earnings	724.5	1,073.2	1,797.7	(52.0)	1,745.7
	2,297.4	2,283.6	4,581.0	(52.0)	4,529.0
Preference and preferred shares	—	69.7	69.7	—	69.7
	$4,235.2	$4,526.7	$8,761.9	$ (5.0)	$8,756.9

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 1997
(millions of dollars except earnings per share)
(unaudited)

	TELUS Corporation (reclassified)	BC TELECOM Inc. (reclassified)	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
Operating revenues					
Local service	$ 1,332.4	$ 1,415.9	$ 2,748.3	$ —	$ 2,748.3
Long distance service	838.9	1,012.0	1,850.9	(45.1)	1,805.8
Other	394.7	540.3	935.0	(16.0)	919.0
	2,566.0	2,968.2	5,534.2	(61.1)	5,473.1
Operating expenses					
Operations	1,609.3	1,697.0	3,306.3	8.9	3,315.2
Depreciation and amortization	535.9	574.0	1,109.9	—	1,109.9
	2,145.2	2,271.0	4,416.2	8.9	4,425.1
Income from operations	420.8	697.2	1,118.0	(70.0)	1,048.0
Interest expense, net	97.2	137.2	234.4	—	234.4
Other	0.8	(1.2)	(0.4)	—	(0.4)
	98.0	136.0	234.0	—	234.0
Income before taxes and non-controlling interest	322.8	561.2	884.0	(70.0)	814.0
Income taxes	168.1	274.1	442.2	(26.4)	415.8
Non-controlling interest	—	4.0	4.0	—	4.0
Income from continuing operations before extraordinary item	154.7	283.1	437.8	(43.6)	394.2
Discontinued operations	127.3	3.6	130.9	—	130.9
Income before extraordinary item	282.0	286.7	568.7	(43.6)	525.1
Extraordinary item	(285.2)	—	(285.2)	—	(285.2)
Net earnings (loss)	(3.2)	286.7	283.5	(43.6)	239.9
Preference and preferred share dividends	—	3.5	3.5	—	3.5
Common share earnings (loss)	$ (3.2)	$ 283.2	$ 280.0	$(43.6)	$ 236.4
Earnings (loss) per share					
– Continuing operations	$ 1.07	$ 2.26	$ 1.84		$ 1.65
– Net	$ (0.02)	$ 2.29	$ 1.18		$ 1.00
Average common shares outstanding (thousands)	144,971	123,926	236,612		236,612

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1997

(millions of dollars)

(unaudited)

	TELUS Corporation	BC TELECOM Inc. (reclassified) (2d)	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
OPERATING ACTIVITIES					
Income before extraordinary item	$ 282.0	$ 286.7	$ 568.7	$ (43.6)	$ 525.1
Items not affecting cash					
Depreciation and amortization	535.9	574.0	1,109.9	—	1,109.9
Allowance for funds used during construction	(2.7)	(10.7)	(13.4)	—	(13.4)
Amortization of workforce reduction costs	38.5	25.0	63.5	—	63.5
Gain on disposal of discontinued operations	(190.3)	(6.1)	(196.4)	—	(196.4)
Future (deferred) income taxes	158.7	(38.9)	119.8	(17.1)	102.7
Other	(26.7)	10.5	(16.2)	—	(16.2)
Sinking fund earnings	(10.0)	—	(10.0)	—	(10.0)
	785.4	840.5	1,625.9	(60.7)	1,565.2
Net change in non-cash working capital	62.4	78.0	140.4	—	140.4
Cash provided by operating activities	847.8	918.5	1,766.3	(60.7)	1,705.6
Cash provided by operating activities, discontinued operations	14.1	—	14.1	—	14.1
Dividends	(133.1)	(170.7)	(303.8)	(31.0)	(334.8)
FINANCING ACTIVITIES					
Issue of long-term debt	—	208.6	208.6	—	208.6
Repayment of long-term debt	(423.3)	(259.4)	(682.7)	—	(682.7)
Sinking fund contributions	(2.0)	—	(2.0)	—	(2.0)
Change in short-term notes payable	—	20.4	20.4	—	20.4
Issue of common shares, net	36.1	8.2	44.3	—	44.3
Cash used by financing activities	(389.2)	(22.2)	(411.4)	—	(411.4)
Cash provided (used) by financing activities, discontinued operations	(32.9)	2.7	(30.2)	—	(30.2)
INVESTING ACTIVITIES					
Capital expenditures	(535.9)	(592.0)	(1,127.9)	—	(1,127.9)
Items not affecting cash	5.8	—	5.8	—	5.8
Proceeds from the sale of assets	8.5	—	8.5	—	8.5
Other	(0.9)	(14.2)	(15.1)	(52.0)	(67.1)
Cash used by investing activities	(522.5)	(606.2)	(1,128.7)	(52.0)	(1,180.7)
Cash provided by investing activities, discontinued operations	403.0	18.4	421.4	—	421.4
Increase (decrease) in cash	187.2	140.5	327.7	(143.7)	184.0
Cash and short-term deposits, beginning of year	76.4	(7.4)	69.0	—	69.0
Cash and short-term deposits, end of year	$ 263.6	$ 133.1	$ 396.7	$(143.7)	$ 253.0

TELUS CORPORATION

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 1997
(millions of dollars except earnings per share)

	TELUS Corporation	Reclassification Adjustments (2c)	TELUS Corporation (reclassified)
Operating revenues			
Local service	$1,195.1	$137.3	$1,332.4
Long distance service	676.3	162.6	838.9
Other	148.4	246.3	394.7
	2,019.8	546.2	2,566.0
Operating expenses			
Operations	1,063.1	546.2	1,609.3
Depreciation and amortization	535.9	—	535.9
	1,599.0	546.2	2,145.2
Income from operations	420.8	—	420.8
Interest expense, net	97.2	—	97.2
Other	0.8	—	0.8
	98.0	—	98.0
Income before taxes	322.8	—	322.8
Income taxes	168.1	—	168.1
Income from continuing operations before extraordinary item	154.7	—	154.7
Discontinued operations	127.3	—	127.3
Income before extraordinary item	282.0	—	282.0
Extraordinary item	(285.2)	—	(285.2)
Net loss	$ (3.2)	—	$ (3.2)
Earnings (loss) per share			
– Continuing operations	$ 1.07		$ 1.07
– Net	$ (0.02)		$ (0.02)
Average common shares outstanding (thousands)	144,971		144,971

BC TELECOM INC.

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 1997
(millions of dollars except earnings per share)

	BC TELECOM Inc.	Reclassification Adjustments (2d)	BC TELECOM Inc. (reclassified)
Operating revenues			
Local service	$1,403.2	$ 12.7	$1,415.9
Long distance service	799.4	212.6	1,012.0
Other	552.0	(11.7)	540.3
	2,754.6	213.6	2,968.2
Operating expenses			
Operations	1,493.2	203.8	1,697.0
Depreciation and amortization	574.0	—	574.0
	2,067.2	203.8	2,271.0
Income from operations	687.4	9.8	697.2
Interest expense, net	137.2	—	137.2
Other	(11.0)	9.8	(1.2)
	126.2	9.8	136.0
Income before taxes and non-controlling interest	561.2	—	561.2
Income taxes	274.1	—	274.1
Non-controlling interest	4.0	—	4.0
Income from continuing operations	283.1	—	283.1
Discontinued operations	3.6	—	3.6
Net earnings (loss)	286.7	—	286.7
Preference and preferred share dividends	3.5	—	3.5
Common share earnings	$ 283.2	$ —	$ 283.2
Earnings per share			
– Continuing operations	$ 2.26		$ 2.26
– Net	$ 2.29		$ 2.29
Average common shares outstanding (thousands)	123,926		123,926

BCT.TELUS Communications Inc.

NOTES TO THE PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

(Unaudited)

1. Basis of Presentation

The accompanying unaudited pro forma financial statements for BCT.TELUS Communications Inc. ("BCT.TELUS") have been prepared in accordance with generally accepted accounting principles and are based on:

- the audited consolidated financial statements of TELUS Corporation ("TELUS") for the year ended December 31, 1997
- the audited consolidated financial statements of BC TELECOM Inc. ("BC TELECOM") for the year ended December 31, 1997
- additional unaudited financial information provided by TELUS Corporation and BC TELECOM.

The pro forma combined consolidated financial statements are not necessarily indicative of the results that actually would have occurred, or results expected in future periods, had the events reflected herein occurred on the dates indicated.

The pro forma combined consolidated financial statements should be read in conjunction with the consolidated financial statements and notes of TELUS and BC TELECOM for the year ended December 31, 1997. No attempt has been made to harmonize accounting policies between the two companies.

2. Assumptions and Adjustments

The pro forma combined consolidated financial statements have been prepared from the following assumptions and adjustments:

(a) ***Combination assumptions***

The business combination between BC TELECOM and TELUS has been accounted for as a pooling of interests as described under DETAILS OF THE ARRANGEMENT AND RELATED TRANSACTIONS.

The pro forma combined statement of income and the pro forma combined statement of changes in financial position reflect the business combination as though it had occurred on January 1, 1997. The pro forma combined balance sheet reflects the business combination as if it had occurred on December 31, 1997. As a result, the ending cash balance on the statement of changes in financial position, after pro forma adjustments, differs from the closing cash balance on the balance sheet (see note 2b).

The combined financial statements include reclassifications to TELUS financial statements (note 2c), and reclassifications to BC TELECOM's financial statements (note 2d).

(b) ***Pro forma adjustments***

INCOME STATEMENT

The following transactions that occurred between BC TELECOM and TELUS have been eliminated from Operating revenue and Operating expenses:

- Long distance revenue of $20.5 million earned by BC TELECOM from TELUS and long distance revenue of $24.7 million earned by TELUS from BC TELECOM.

2. Assumptions and Adjustments (Continued)

- Cellular and paging terminal unit sales to BC TELECOM of approximately $13.0 million recorded in Other revenue at TELUS.
- Other revenue of $3.0 million earned by ISM Information Systems Management (B.C.) Corporation from TELUS.

A ten-year contract has been arranged with GTE Corporation for provision of brand and technology to BCT.TELUS. Pro forma adjustments show the payment of $67.7 million (U.S. $45.0 million) for the first year of the contract together with other minor adjustments of $2.3 million.

The income tax rate applied to the pro forma income adjustments is the expected average statutory rule.

BALANCE SHEET

Accounts receivable and accounts payable have been reduced by $5.0 million for the estimated balances outstanding between TELUS and BC TELECOM. In addition, $52.0 million of estimated out-of-pocket costs for completing the arrangement have been accrued and charged to retained earnings.

Common share capital has been reclassified into common share capital and non-voting share capital according to the exchange ratios outlined elsewhere in the information circular.

STATEMENT OF CHANGES IN FINANCIAL POSITION

The ending cash balance, after pro forma adjustments, is different from the cash balance on the balance sheet by $143.7 million. This results from the following transactions:

- $60.7 million in brand and technology payments and related costs net of first year cash tax savings,
- $31.0 million increase in dividend payments to reflect the increase to an annual payment of $1.40 per share,
- $52.0 million in costs for completing the arrangement.

(c) TELUS revenues and operations expenses have each been adjusted by $546.2 million for an accounting classification change adopted in 1998. Material in sales, other carrier charges, and bad debt expense, previously recorded in net operating revenue are now recorded in operations expense.

(d) BC TELECOM revenues, operations expenses and other income have been adjusted for accounting classification changes adopted in 1998. Settlement related expenses and uncollectibles totalling $203.8 million, which were previously recorded in net operating revenue are now recorded in operations expense. In addition, other revenue has increased by $9.8 million with an equivalent reduction in other income.

For consistency of presentation, deferred income taxes on the balance sheet have been reclassified as a future income tax credit, and certain non-material reclassifications have been made to BC TELECOM's statement of changes in financial position.

(e) No other adjustments have been made to operating revenues and expenses for any changes expected to occur in future years as a result of this reorganization.

BCT.TELUS COMMUNICATIONS INC.

PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO (SEPTEMBER 30, 1998) (UNAUDITED)

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET

As at September 30, 1998
(millions of dollars)
(unaudited)

	TELUS Corporation	BC TELECOM Inc.	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
Assets					
Current					
Cash and short-term deposits	$ —	$ 201.7	$ 201.7	$(32.8)	$ 168.9
Accounts receivable	359.4	349.6	709.0	(5.0)	704.0
Current portion of future/deferred income taxes	121.2	—	121.2	—	121.2
Inventories for resale	48.2	—	48.2	—	48.2
Prepaid expenses and other	38.3	104.7	143.0	—	143.0
	567.1	656.0	1,223.1	(37.8)	1,185.3
Property, plant and equipment, net	2,631.6	3,101.3	5,732.9	—	5,732.9
Other assets					
Deferred charges	9.8	121.6	131.4	—	131.4
Investments	—	4.9	4.9	—	4.9
Sinking fund assets	122.1	—	122.1	—	122.1
Other	20.5	41.6	62.1	—	62.1
Future income taxes	419.7	192.9	612.6	—	612.6
Goodwill	58.4	11.8	70.2	—	70.2
	630.5	372.8	1,003.3	—	1,003.3
	$3,829.2	$4,130.1	$7,959.3	$(37.8)	$7,921.5
Liabilities					
Current					
Bank indebtedness	$ 32.8	$ —	$ 32.8	$(32.8)	$ —
Accounts payable and accrued liabilities	302.4	414.2	716.6	47.0	763.6
Dividends payable	33.2	44.2	77.4	—	77.4
Service billed in advance	75.4	84.3	159.7	—	159.7
Debt due within one year	283.2	477.5	760.7	—	760.7
	727.0	1,020.2	1,747.2	14.2	1,761.4
Long-term debt	678.8	1,054.5	1,733.3	—	1,733.3
Deferred revenues and other long-term liabilities	79.9	85.5	165.4	—	165.4
Non-controlling interest	—	9.1	9.1	—	9.1
Shareholders' Equity					
Common equity					
Share capital:					
Common	1,563.1	1,206.8	2,769.9	(692.5)	2,077.4
Non-voting	—	—	—	692.5	692.5
Contributed surplus	—	7.3	7.3	—	7.3
Retained earnings	780.4	677.0	1,457.4	(52.0)	1,405.4
	2,343.5	1,891.1	4,234.6	(52.0)	4,182.6
Preference and preferred shares	—	69.7	69.7	—	69.7
	$3,829.2	$4,130.1	$7,959.3	$(37.8)	$7,921.5

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED STATEMENT OF INCOME

For the Nine Months Ended September 30, 1998
(millions of dollars except earnings per share)
(unaudited)

	TELUS Corporation	BC TELECOM Inc.	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
Operating revenues					
Local service	$1,116.6	$1,248.8	$2,365.4	$ —	$2,365.4
Long distance service	571.0	718.6	1,289.6	(32.8)	1,256.8
Other	282.6	399.0	681.6	(15.8)	665.8
	1,970.2	2,366.4	4,336.6	(48.6)	4,288.0
Operating expenses					
Operations	1,220.1	1,371.0	2,591.1	3.9	2,595.0
Depreciation and amortization	356.6	403.4	760.0	—	760.0
	1,576.7	1,774.4	3,351.1	3.9	3,355.0
Income from operations	393.5	592.0	985.5	(52.5)	933.0
Interest expense, net	60.6	97.9	158.5	—	158.5
Other expense (income)	(21.2)	(14.1)	(35.3)	—	(35.3)
	39.4	83.8	123.2	—	123.2
Income before taxes and non-controlling interest	354.1	508.2	862.3	(52.5)	809.8
Income taxes	164.3	238.5	402.8	(19.8)	383.0
Non-controlling interest	—	3.4	3.4	—	3.4
Income before extraordinary item	189.8	266.3	456.1	(32.7)	423.4
Extraordinary item	—	(530.6)	(530.6)	—	(530.6)
Net earnings (loss)	189.8	(264.3)	(74.5)	(32.7)	(107.2)
Preference and preferred share dividends	—	2.6	2.6	—	2.6
Common share earnings (loss)	$ 189.8	$ (266.9)	$ (77.1)	$(32.7)	$ (109.8)
Earnings (loss) per share					
— Continuing operations	$ 1.31	$ 2.12	$ 1.91		$ 1.78
— Net	$ 1.31	$ (2.15)	$ (0.33)		$ (0.46)
Average common shares outstanding (thousands)	145,101	124,213	237,000		237,000

BCT.TELUS Communications Inc.

PRO FORMA COMBINED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Nine Months Ended September 30, 1998
(millions of dollars)
(unaudited)

	TELUS Corporation	BC TELECOM Inc. (reclassified)	Combined (2a)	Pro forma Adjustments (2b)	Combined Consolidated
OPERATING ACTIVITIES					
Income before extraordinary item	$ 189.8	$ 266.3	$ 456.1	$ (32.7)	$ 423.4
Items not affecting cash					
Depreciation and amortization	356.6	403.7	760.3	—	760.3
Gain on disposal of investments	(21.6)	(17.3)	(38.9)	—	(38.9)
Future (deferred) income taxes	101.3	(33.2)	68.1	(12.8)	55.3
Other	(17.1)	14.5	(2.6)	—	(2.6)
Sinking fund earnings	(8.4)	—	(8.4)	—	(8.4)
	600.6	634.0	1,234.6	(45.5)	1,189.1
Net change in non-cash working capital	(151.8)	(65.7)	(217.5)	—	(217.5)
Cash provided by operating activities	448.8	568.3	1,017.1	(45.5)	971.6
Dividends	(100.3)	(131.8)	(232.1)	(19.4)	(251.5)
FINANCING ACTIVITIES					
Issue of long-term debt	4.0	9.7	13.7	—	13.7
Issue of short-term debt	263.0	272.4	535.4	—	535.4
Repayment of long-term debt	(601.0)	(272.3)	(873.3)	—	(873.3)
Repurchase of common shares	(47.6)	—	(47.6)	—	(47.6)
Issue of common shares, net	4.0	3.6	7.6	—	7.6
Other	—	0.9	0.9	—	0.9
Cash used by financing activities	(377.6)	14.3	(363.3)	—	(363.3)
INVESTING ACTIVITIES					
Capital expenditures	(349.4)	(389.7)	(739.1)	—	(739.1)
Items not affecting cash	11.4	—	11.4	—	11.4
Proceeds from the sale of investments	41.0	42.5	83.5	—	83.5
Other	29.7	(35.0)	(5.3)	(52.0)	(57.3)
Cash used by investing activities	(267.3)	(382.2)	(649.5)	(52.0)	(701.5)
Increase (decrease) in cash	(296.4)	68.6	(227.8)	(116.9)	(344.7)
Cash and short-term deposits, beginning of year	263.6	133.1	396.7	—	396.7
Cash and short-term deposits, end of year	$ (32.8)	$ 201.7	$ 168.9	$(116.9)	$ 52.0

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LONG-TERM RELATIONSHIP AGREEMENT

LONG-TERM RELATIONSHIP AGREEMENT

THIS AGREEMENT is made the • day of • , 1999,

AMONG:

BCT.TELUS COMMUNICATIONS INC., a company incorporated under the laws of British Columbia (the "Company")

OF THE FIRST PART,

— and —

GTE CORPORATION, a corporation incorporated under the laws of New York ("GTE")

OF THE SECOND PART,

— and —

ANGLO-CANADIAN TELEPHONE COMPANY, a corporation incorporated under the laws of Quebec ("Anglo-Canadian")

OF THE THIRD PART.

WHEREAS as of the Effective Date, GTE or Anglo-Canadian are the holders of record or beneficial owners of • Voting Shares and • Non-Voting Shares representing • % of the outstanding Shares as of the Effective Date; and

WHEREAS the Parties wish to record their agreement concerning certain ongoing rights and obligations relating to the continuing relationship among the Company, GTE and Anglo-Canadian from and after the Effective Date;

NOW THEREFORE, in consideration of the mutual covenants contained herein, the Parties agree as follows.

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Agreement, including the recitals, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended;

"**Affiliate**" of a Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person;

"**Arrangement**" means the arrangement in respect of TELUS under the provisions of Section 186 of the ABCA and in respect of BCTEL under the provisions of Section 192 of the CBCA, on the terms and conditions set forth in the Plan of Arrangement;

"**Arrangement Agreement**" means the amended and restated arrangement agreement dated October 27, 1998 between BCTEL, TELUS and the Company;

"**BCCA**" means the *Company Act* (British Columbia), as amended;

"**BC TEL**" means BC TELECOM Inc., a corporation incorporated under the laws of Canada;

"**Business Day**" means any day, other than Saturday, Sunday or a statutory holiday in the Province of Alberta, the Province of British Columbia or the State of New York;

"**CBCA**" means the *Canada Business Corporations Act*, as amended;

"**Company Board**" means the Board of Directors of the Company;

"**Company Directors**" means the individuals who are members of the Company Board;

"**control**", in respect of a Person, (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or by other arrangement;

"**Convertible Securities**" means:

(a) any right (contractual or otherwise and regardless of whether such right constitutes a security) to acquire Shares; and

(b) any securities issued by the Company from time to time carrying any exercise, conversion or exchange right;

pursuant to which the holder thereof may acquire Shares or other securities which are convertible into or exercisable or exchangeable for Shares whether or not on condition or the happening of any contingency;

"**Effective Date**" means the date upon which the Arrangement becomes effective;

"**Effective Time**" has the meaning attributed thereto in the Arrangement Agreement;

"**GTE Designees**" means individuals who are qualified to serve as directors of a company governed by the BCCA and, if applicable, the *Telecommunications Act* (Canada), who have been designated by GTE for nomination as Company Directors in accordance with the terms hereof and who consent to serve in such capacity;

"**GTE Group**" has the meaning attributed thereto in Section 2.1;

"**Independent Directors**" means Company Directors who are neither GTE Designees nor members of Company management;

"**Non-Voting Shares**" means the Non-Voting Shares in the capital of the Company and having the terms and conditions as set forth in the Articles of the Company;

"**Offer**" means any offer to purchase Shares that must, by reason of applicable securities legislation or the requirements of a stock exchange on which such shares are listed, be made to all or substantially all holders of the Shares who are in a province of Canada to which the requirement applies;

"**Parties**" means the Company, GTE and Anglo-Canadian; and "Party" means any one of them;

"**Person**" means an individual, partnership, limited partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity;

"**Plan of Arrangement**" means the plan of arrangement approved by the shareholders of TELUS and BC TEL at special meetings held on ● , 1999 and approved by the Court of Queen's Bench of Alberta by final order dated ● , 1999 and by the Supreme Court of British Columbia by final order dated ● , 1999;

"**QuebecTel**" means the QuebecTel Group Inc., a Quebec corporation, and its subsidiaries;

"**Shares**" as of the date hereof means Voting Shares and Non-Voting Shares and, hereafter, also includes any other fully participating equity shares authorized by the Company from time to time regardless of whether or not such shares are voting or non-voting;

"**Subsidiary**" of a Person means any body corporate, partnership or other Person of which:

(a) in the case of a body corporate, securities entitled to vote in the election of directors carrying more than 50% of the votes for the election of directors are held, directly or indirectly, by or for the benefit of such Person, and the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such body corporate; or

(b) in the case of a partnership or other Person which is not a body corporate, more than 50% of the voting or equity participation or other equity interests are held, directly or indirectly, by or for the benefit of the Person;

"**Technology Agreement**" means the intellectual property and branding agreement to be entered into on or before the Effective Date between the Company and GTE incorporating the terms described in the Heads of Agreement Brand, Technology and Co-Marketing previously executed and delivered by GTE and BC TELECOM and initialled for identification by TELUS;

"**Telecom Regulations**" means the Regulations Respecting the Ownership and Control of Canadian Telecommunications Common Carriers under the *Telecommunications Act* (Canada) or any other legislation or regulation applicable to the Company which restricts non-Canadian ownership and control of the Company or its Affiliates, as amended;

"**TELUS**" means TELUS Corporation, a corporation incorporated under the laws of Alberta;

"**Third Party**" means any Person other than GTE or any of its Affiliates or QuebecTel; and

"**Voting Shares**" means the Common Shares in the capital of the Company and having the terms and conditions as set forth in the Articles of the Company, and any other fully participating equity shares authorized by the Company having the right to vote generally in all circumstances which may be authorized by the Company from time to time.

1.2 Interpretation

(a) In this Agreement, unless the contrary intention appears, words importing the singular include the plural and vice versa.

(b) Unless otherwise specifically provided herein, a reference to a statute in this Agreement shall include and shall be deemed to be a reference to the regulations made pursuant to it, and to all amendments made to such statute or such regulations in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing or superseding the statute referred to or the relevant regulation.

(c) If the date on which any action is required to be taken hereunder by any of the Parties is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

(d) The Parties agree that as of the date hereof QuebecTel is not controlled by GTE or Anglo-Canadian in fact and shall not be considered an Affiliate or Subsidiary of them, or acting in concert with them, hereunder unless and until such time as the policies of GTE or Anglo-Canadian in respect of QuebecTel change such that QuebecTel is controlled in fact by them.

ARTICLE 2

OWNERSHIP RESTRICTIONS

2.1 Maximum Ownership of Shares

GTE and its Affiliates (including, without limitation, Anglo-Canadian) (collectively, the "GTE Group") shall not acquire any Shares if, as a result, it would beneficially own, or exercise direction or control over, directly or indirectly, alone or in concert with others, Shares representing:

(a) more than the percentage of the voting rights attaching to all Shares having the right to vote for the election of directors generally that the GTE Group held immediately after the Effective Time plus 7.5% (which aggregate percentage shall in any event and at all times be less than 33⅓% or such greater percentage then permitted under the Telecom Regulations), or

(b) more than the percentage of Shares that the GTE Group held immediately after the Effective Time plus 7.5% (which aggregate percentage shall in any event and at all times be less than 33⅓% or such greater percentage then permitted under the Telecom Regulations),

without the prior approval of a majority of the Independent Directors.

2.2 Minimum Number of Shares

(a) Except as permitted pursuant to Section 2.2(b) GTE shall not, and shall not cause or permit the other members of the GTE Group to, directly or indirectly, sell, assign, transfer or otherwise dispose of any Shares, without the prior approval of a majority of the Independent Directors, if thereafter the GTE Group would beneficially own, or exercise control or direction over, directly or indirectly, alone or in concert with others, Shares representing less than 19.9% of the outstanding Shares. Where the GTE Group may dispose of Shares without contravening the foregoing provision of this Section 2.2(a), such disposition shall be by way of a secondary prospectus offering or other means of sale which results in a wide distribution of such Shares. For purposes of this Section 2.2(a), "wide distribution" shall mean public market sales, a secondary offering or sales to passive institutional investors (provided that such passive institutional investors are not material competitors) and provided that no one Person (other than underwriters) shall acquire from the GTE Group, to its knowledge after reasonable inquiry, more than 2% of the Shares then outstanding.

(b) At any time, GTE and the other members of the GTE Group shall be permitted to sell or otherwise dispose of Shares:

(i) pursuant to a take-over bid (A) approved by the Company Board, and not disapproved by a majority of the Independent Directors, or (B) with respect to which the Company Board or a majority of the Independent Directors publicly announce their intention to remain neutral;

(ii) pursuant to an Offer or pursuant to an arrangement, amalgamation or other business combination, made or proposed by a Third Party (provided that no member of the GTE Group has contravened Section 2.3 of this Agreement in respect of the foregoing Offer, arrangement, amalgamation or other business combination), and shareholders of the Company holding

A. in the case of the Offer, in the aggregate more than 50% of the aggregate of Shares then outstanding have been deposited and not withdrawn, in each case excluding holdings of the GTE Group, and

B. in the case of an arrangement, amalgamation or other business combination, 50% of the votes represented in person or by proxy in respect of each vote required to be held, in each case excluding votes in respect of securities held by the GTE Group, are voted in favour of such transactions;

(iii) to one or more wholly-owned Subsidiaries of GTE or to a transferee as part of the GTE/Bell Atlantic Corp. transaction on prior notice to the Company and subject to each such Subsidiary or transferee agreeing in writing with the Company to be bound by the terms of this Agreement and GTE or Anglo-Canadian agreeing not to sell or otherwise dispose of any of its direct or indirect equity interest in any such Subsidiary except to another wholly-owned Subsidiary subject to the same restrictions; or

(iv) by way of the grant of a security interest to a bona fide lender that agrees in writing with the Company to be bound by this Agreement.

2.3 Standstill

Each of GTE and Anglo-Canadian hereby covenants and agrees that, except as permitted under this Agreement, it will not, nor will it authorize or permit any of its directors, officers, employees, Affiliates (or directors, officers or employees of Affiliates), or agents or other representatives (retained by GTE, Anglo-Canadian or their Affiliates), acting for or on behalf of any of GTE, Anglo-Canadian or their Affiliates to, in any case, without the prior approval of a majority of the Independent Directors:

(a) initiate, solicit or invite any discussions or negotiations, or enter into any agreement, provide any confidential information concerning the Company or its Subsidiaries or otherwise act alone or in concert with any Person (other than acting in concert with the Company), in order to propose or effect any arrangement, consolidation, merger, amalgamation, take-over bid, business combination, sale of

material assets or material sale of treasury shares or rights or interests in such assets or treasury shares involving the Company or its Subsidiaries;

(b) solicit proxies, or engage in, participate in, support, induce or provide any encouragement or assistance to any proxy contest with the management of the Company or the Company Board, or otherwise oppose or solicit or encourage opposition to the Company Board in order to propose, consider or effect any of the acts prohibited pursuant to the provisions of this Section 2.3 (except in connection with the election or proposed election or any proposed removal of the GTE Designees); or

(c) take any action or make any announcement to initiate, encourage or otherwise assist any other Person (including by way of providing financing for the purposes of effecting a prohibited act) to do or otherwise act in concert with any Person in order to propose or effect any of the acts prohibited pursuant to the provisions of this Section 2.3.

Nothing contained in this Section 2.3 shall prevent GTE or its Affiliates from engaging in internal discussions only regarding any of the substantive matters referred to in this Section 2.3 or from preparing and presenting proposals regarding such matters for the confidential consideration of the Company Board or the Chief Executive Officer. In the event that GTE or its material North American Subsidiaries shall receive or become aware of any proposal from any Third Party or QuebecTel with respect to any matter referred to in this Section 2.3 (other than through the Company or by reason of its directors, officers or employees serving as directors or officers of QuebecTel where such information is held in confidence by them), GTE shall immediately notify the Company of all of the particulars of the proposal.

2.4 Required Sale

(a) If GTE or its Affiliates are in breach of GTE's covenant contained in Section 2.1 hereof, GTE shall, provided that the Shares are at such time listed and posted for trading on The Toronto Stock Exchange and qualified, to the extent requested by GTE, by a prospectus prepared by the Company, and provided further that the Company enters into and complies with any underwriting agreement reasonably requested by GTE (with GTE bearing the reasonable costs of the Company in connection therewith, except where the Company is simultaneously selling securities under a prospectus), on receipt of written notice from a majority of the Independent Directors, sell, transfer or dispose of, or cause its Affiliates to sell, transfer or dispose of, such number of the Shares held by it or its Affiliates so that, following such sale, transfer or disposition, GTE and its Affiliates are in compliance with Section 2.1 hereof.

(b) GTE and its Affiliates shall have a period of 60 days from the receipt of written notice from a majority of the Independent Directors to effect such sale, transfer or other disposition. GTE and its Affiliates shall consult with the Company in effecting any sale, transfer or other disposition and comply with the provisions of Section 2.2(a) hereof with respect to distributions of Shares.

(c) GTE will and will cause its Affiliates to provide as soon as practicable the Company, upon written request by the Company from time to time, advice in writing confirming its and its Affiliates' holdings of Shares of the Company.

2.5 Share Ownership Inclusions

For purposes of this Agreement, Shares beneficially owned, or over which direction or control is exercised, by a Person shall include Convertible Securities beneficially owned, or over which direction or control is exercised, by such Person and which are convertible at the time any calculation is made hereunder. For the purposes of calculations hereunder, all Convertible Securities which are convertible at the time any calculations are made shall be deemed to have been converted.

ARTICLE 3

NON-DILUTION AND OTHER MATTERS

3.1 Issue of Shares

If the Company or any of its Subsidiaries shall determine to issue any shares (or any securities convertible into or representing the right or obligation to acquire shares) of the Company or any of its wholly-owned Subsidiaries, other than by way of the grant of options to directors, officers or employees of the Company or its Subsidiaries (or pursuant to any internal reorganization of its wholly-owned Subsidiaries), the Company shall use its best efforts in the case of the Company and its reasonable commercial efforts in the case of any Subsidiaries to provide GTE and its Affiliates with the right to acquire, from treasury, such number thereof as will enable GTE and its Affiliates to hold the same percentage of the securities of the class being issued that they held of Shares prior to the issuance of such securities, on equivalent terms.

3.2 Termination of the Non-Dilution Right

The rights under this Section 3 shall immediately terminate if the GTE Group beneficially owns, or exercises direction or control over, less than 50% of the percentage of outstanding Shares that the GTE Group holds immediately following the Effective Time.

3.3 TELUS Cable

The Company shall:

(a) continue at all times to comply with Section 5.13 of the Arrangement Agreement; and

(b) at the request of GTE, dispose of, terminate, surrender or otherwise deal with any and all broadcasting licenses if at any time GTE or Bell Atlantic conclude, acting reasonably, that the existence of any such license would disrupt the GTE/Bell Atlantic transaction or any other transaction involving GTE.

3.4 TELUS Subsidiaries

The Company agrees to use its reasonable commercial efforts to resolve the "tiering" issue in respect of subsidiaries of TELUS, provided that any such resolution is not contrary to the best interests of the Company and its shareholders.

ARTICLE 4

BOARD REPRESENTATION

4.1 Proportionate Representation

(a) On the Effective Date, immediately upon the completion of the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement, the Company and GTE agree that there are four GTE Designees on the Company Board.

(b) In respect of each meeting of shareholders subsequent to the Effective Date at which Company Directors are to be elected, GTE or Anglo-Canadian shall be entitled to designate a number of GTE Designees for nomination, or nominate, for election as Company Directors so that the proportion of GTE Designees to the total number of Company Directors to be elected is equivalent to the number of voting rights attached to all of the Shares beneficially owned, directly or indirectly, by GTE or Anglo-Canadian as a proportion of the total number of voting rights attached to all of the Shares outstanding (rounded up or down, as the case may be if greater than or equal to, or less than, 0.5, respectively). The GTE Designees shall be considered management nominees to the Board of Directors and votes in favour will be solicited by management accordingly. Notwithstanding the foregoing, the Company shall not be obligated to nominate or to solicit proxies in favour of any nominees of GTE greater than such number as determined above in respect of any meeting of shareholders of the Company. GTE or Anglo-Canadian shall make reasonable efforts to consult with the Company with respect to the GTE Designees, and GTE shall have priority with respect to

non-Canadian residents. GTE and Anglo-Canadian shall have the right to identify the replacement for any GTE Designee who ceases to be a member of the Company Board for whatever reason during the term hereof, and the Company shall effect such replacement immediately.

(c) Each committee of the Company Board shall include as a Company Director at least one GTE Designee, except such committees, formed after the Effective Date, as the Company Board determines in its discretion or on the advice of counsel should be comprised of Company Directors who are independent of GTE or Anglo-Canadian or their respective Affiliates.

ARTICLE 5

GENERAL

5.1 Notices

Any notice, notification, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a Party to any other Party shall be in writing and may be given by delivering same or sending same by facsimile transmission or by delivery by private courier or express delivery service, addressed to the Party to which the notice is to be given at its address for service herein. Any notice, notification, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a Business Day; if not, the next succeeding Business Day) and if sent by facsimile transmission be deemed to have been given and received at the time of receipt unless actually received after 4:00 p.m. at the point of delivery in which case it shall be deemed to have been given and received on the next Business Day.

The address for service of each of the Parties shall be as follows:

(a) if to the Company:

BCT.TELUS Communications Inc.

Attention: ●
Fax: ●

(b) if to GTE or Anglo-Canadian:

GTE Corporation
5221 North O'Connor Road
Irving, Texas
75039

Attention: Al Giammarino
Fax: (972) 791-2915

Any Party may give written notice of change of address in the same manner described in this Section, in which event subsequent notices or other communications shall be given to that Party at the changed address.

5.2 Non-Canadian Ownership Limitations

GTE and Anglo-Canadian acknowledge that the Company is currently subject to limitations on non-Canadian ownership as provided in the *Telecommunications Act* (Canada) and the Telecom Regulations.

5.3 Term

This Agreement shall terminate on the date that is the tenth anniversary of the Effective Date.

5.4 Time of Essence

Time shall be of the essence in this Agreement.

5.5 Entire Agreement

This Agreement constitutes the entire agreement between the Parties and cancels and supersedes all prior agreements and understandings between the Parties with respect to the subject matter of this Agreement.

5.6 Severability

Any article, section, subsection or other subdivision or any other provision of this Agreement which is, is deemed to be, or becomes void, illegal, invalid or unenforceable shall be severable and ineffective to the extent of such voidability, illegality, invalidity or unenforceability and shall not invalidate, effect or impair the remaining provisions hereof which shall be severable from any void, illegal, invalid or unenforceable article, section, subsection or other subdivision or provision.

5.7 Further Assurances

Each Party shall, from time to time, and at all times hereafter, at the request of any other Party, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

5.8 Governing Law

This Agreement shall be governed by, and be construed in accordance with, the laws of the Province of British Columbia and the laws of Canada applicable therein. Each Party hereby irrevocably attorns to the non-exclusive jurisdiction of the Courts of the Province of British Columbia in respect of all matters arising under or in relation to this Agreement.

5.9 Execution in Counterparts

This Agreement may be executed in identical counterparts, each of which is and is hereby conclusively deemed to be an original and the counterparts collectively are to be conclusively deemed to be one instrument.

5.10 Waiver

No waiver by any Party hereto shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

5.11 Enurement and Assignment

The Agreement shall be binding upon and shall inure to the benefit of and be enforceable by and against the Parties and their respective successors and permitted assigns, including without limitation in the case of any corporate party hereto any corporate successor by merger or otherwise. Upon any transfer of Shares to an Affiliate or lender as permitted pursuant hereto, the transferor shall remain liable for the performance of all obligations under this Agreement. For greater certainty, transferees or purchasers in respect of a "wide distribution" under Section 2.2(a) or transferees or purchasers under Section 2.2(b)(i) or (ii), shall not be subject to the terms of this Agreement. Except as expressly permitted herein, this Agreement may not be assigned by any Party hereto without the prior written consent of the other Parties hereto.

5.12 Miscellaneous

Nothing in this Agreement shall (i) derogate from the rights or remedies of GTE, Bell Atlantic or the Company under the Technology Agreement as it may be amended from time to time, (ii) require GTE, Bell Atlantic or Anglo-Canadian to violate applicable laws, or (iii) interfere with, affect or fetter the discretion of any nominee of GTE or Anglo-Canadian (or Bell Atlantic assuming that the proposed merger between GTE and Bell Atlantic is completed) who is a director or officer of the Company or any of its Subsidiaries or QuebecTel in the discharge of his or her fiduciary duties in his or her capacity as a director or officer of the Company or any of its Subsidiaries. In the event this Agreement or the ownership restrictions contained herein would have substantial adverse tax or accounting impact on GTE, Bell Atlantic or Anglo-Canadian, the Parties shall consult and in good faith consider amendments to this Agreement.

5.13 GTE Responsibility

GTE agrees to cause compliance with and be responsible for any breach of the obligations, representations and warranties of Anglo-Canadian hereunder, or any permitted transferee under Section 2.2(b)(iii), (iv) or that is an Affiliate.

5.14 Directors' and Officers' Insurance and Indemnification

The Company shall indemnify the GTE Designees in their capacity as directors and officers of the Company and its Subsidiaries to the fullest extent to which the Company and its Subsidiaries are permitted to indemnify such officers and directors under their constating documents and applicable law and shall make such GTE Designees beneficiaries of the Company's directors and officers insurance policies. The Company hereby unconditionally agrees to be held in trust for the benefit of such directors and officers the obligations of the Company and its Subsidiaries under the foregoing indemnification arrangements.

5.15 Relationship of Parties

Except as otherwise expressly provided herein, nothing in this Agreement or the conduct of any Party shall in any manner whatsoever constitute or be intended to constitute any Party as the agent or representative or fiduciary of any other Party nor constitute or be intended to constitute a partnership or joint venture among the Parties or any of them but rather each of the Parties shall be severally (and, unless otherwise specifically provided herein, not jointly or jointly and severally) liable, responsible and accountable for its own obligations and for all claims, demands, actions and causes of action arising therefrom. No Party shall have the authority to act for or assume any obligation or responsibility on behalf of any other Party.

5.16 Effectiveness

This Agreement shall become effective on the Effective Date under the Arrangement Agreement.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and year set forth above.

BCT.TELUS COMMUNICATIONS INC.

Per: _____
Authorized Signatory

Per: _____
Authorized Signatory

GTE CORPORATION

Per: _____
Authorized Signatory

Per: _____
Authorized Signatory

ANGLO-CANADIAN TELEPHONE COMPANY

Per: _____
Authorized Signatory

Per: _____
Authorized Signatory

NOTICES OF PETITION

Action No. A983181
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 192 OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c.C-44, AS AMENDED

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY BC TELECOM INC., TELUS CORPORATION, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC. INVOLVING BC TELECOM INC. AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES AND TELUS CORPORATION AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC.

NOTICE OF PETITION

TO: HOLDERS OF COMMON SHARES AND OPTIONS OF BC TELECOM INC.

NOTICE IS HEREBY GIVEN that a petition (the "Petition") has been filed by BC TELECOM Inc. ("BC TELECOM") under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended (the "CBCA"), and by TELUS Corporation ("TELUS") under section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended (the "ABCA") with respect to a proposed arrangement (the "Arrangement") involving BC TELECOM, its holders of common shares and options to acquire common shares (the "BC TELECOM Shareholders") and TELUS, its holders of common shares and options to acquire common shares (the "TELUS Shareholders"), BCT.TELUS Communications Inc. ("BCT.TELUS") and 3481646 Canada Inc., which Arrangement is described in greater detail in the Joint Management Proxy Circular of BC TELECOM and TELUS dated December 8, 1998 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the Petition will be heard before the Master or Judge in Chambers at the Courthouse at 800 Smithe Street, Vancouver, British Columbia, Canada, on the 22nd day of January, 1999 at 9:45 a.m. (Pacific Standard Time) or as soon thereafter as counsel may be heard.

At the hearing of the Petition, BC TELECOM intends to seek the following:

(i) a declaration that the terms and conditions of the Arrangement are fair to the persons affected;

(ii) a final order approving the Plan of Arrangement;

(iii) a declaration that the Arrangement will, upon the filing of Articles of Arrangement and the issuance of the Certificate of Arrangement under the CBCA, be effective under the CBCA in accordance with its terms; and

(iv) such further and other directions as this Honorable Court may deem just.

The Final Order will constitute the basis for an exemption from certain requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities of BCT.TELUS issued pursuant to the Arrangement.

AND NOTICE IS FURTHER GIVEN that any BC TELECOM Shareholder or other interested party desiring to support or oppose the Petition may appear personally or by counsel at the hearing for that purpose, provided such shareholder or other interested party files with the Court and serves upon BC TELECOM, on or before January 19th, 1999, an Appearance, together with any evidence or materials which are to be presented to the Court, setting out such shareholder's or other interested party's address for service by ordinary mail and indicating whether such shareholder or other interested party intends to support or oppose the Petition or make submissions. Service on BC TELECOM is to be effected by delivery to the solicitors for BC TELECOM and TELUS at the addresses set forth below.

AND NOTICE IS FURTHER GIVEN that, at the hearing and subject to the foregoing, BC TELECOM Shareholders and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement to such shareholders. If you do not attend, either in person or by counsel, at that time, the Court may approve or refuse to approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice to you.

AND NOTICE IS FURTHER GIVEN that the Court, by an Interim Order dated December 4, 1998 has given directions as to the calling and holding of a special meeting of the BC TELECOM Shareholders for the purpose of such shareholders voting upon the special resolution to approve the Arrangement and, in particular, has directed that the BC TELECOM Shareholders shall have the right to dissent under the provisions of section 190 of the CBCA as modified by, and upon compliance with the terms of, the Interim Order.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any BC TELECOM Shareholder or other interested party requesting the same by the undermentioned solicitors for BC TELECOM and TELUS upon written request delivered to such solicitors as follows:

Farris, Vaughan, Wills & Murphy
Barristers and Solicitors
2600 - 700 West Georgia Street
Vancouver, B.C.
V7Y 1B3

Attention: J. Kenneth McEwan
Counsel to BC TELECOM

Bennett Jones
Barristers and Solicitors
4500, 855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Attention: A.L. Friend, Q.C.
Counsel to TELUS

DATED at the City of Vancouver, in the Province of British Columbia, this 8th day of December, 1998.

BC TELECOM Inc.

By: (signed) Dorothy E. Byrne
Corporate Secretary

Action No. 9801-16664

IN THE COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF SECTION 186 OF THE *BUSINESS CORPORATIONS ACT*, S.A. 1981, c.B-15, AS AMENDED

AND IN THE MATTER OF AN ARRANGEMENT PROPOSED BY TELUS CORPORATION, BC TELECOM INC., BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC. INVOLVING TELUS CORPORATION AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES AND BC TELECOM INC. AND ITS HOLDERS OF COMMON SHARES AND OPTIONS TO ACQUIRE COMMON SHARES, BCT.TELUS COMMUNICATIONS INC. AND 3481646 CANADA INC.

NOTICE TO TELUS CORPORATION SHAREHOLDERS OF PETITION

NOTICE IS HEREBY GIVEN that a petition (the "Petition") has been filed with the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"), by TELUS Corporation ("TELUS") under section 186 of the *Business Corporations Act*, S.A. 1981, c.B-15, as amended (the "ABCA"), and by BC TELECOM Inc. ("BC TELECOM") under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended (the "CBCA") with respect to a proposed arrangement (the "Arrangement") involving TELUS, its holders of common shares and options to acquire common shares (the "TELUS Shareholders") and BC TELECOM, its holders of common shares and options to acquire common shares (the "BC TELECOM Shareholders"), BCT.TELUS Communications Inc. ("BCT.TELUS") and 3481646 Canada Inc., which Arrangement is described in greater detail in the Joint Management Proxy Circular of BC TELECOM and TELUS dated December 8, 1998 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the said Petition will be heard before the presiding Chambers Justice at the Court House, 611 - 4th Street S.W., Calgary, Alberta, Canada, on the 21st day of January, 1999 at 1:30 p.m. (Mountain Standard Time) or as soon thereafter as counsel may be heard.

At the hearing of the Petition, TELUS intends to seek the following:

(i) a declaration that the terms and conditions of the Arrangement are fair to the persons affected;

(ii) an order approving the Arrangement pursuant to the provisions of section 186 of the ABCA (the "Final Order");

(iii) a declaration that the Arrangement will, upon the filing of Articles of Arrangement under the ABCA, be effective under the ABCA in accordance with its terms; and

(iv) such other further orders, declarations and directions as the Court may deem just.

The Final Order will constitute the basis for an exemption from certain requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities of BCT.TELUS issued pursuant to the Arrangement.

AND NOTICE IS FURTHER GIVEN that any TELUS Shareholder or other interested party desiring to support or oppose the Petition may appear and be heard at the time of hearing in person or by counsel for that purpose, provided such shareholder or other interested party files with the Court and serves upon TELUS, on or before January 11, 1999, a Notice of Intention to Appear, together with any evidence or materials which are to be presented to the Court, setting out such shareholder's or other interested party's address for service by ordinary mail and indicating whether such shareholder or other interested party intends to support or oppose the Petition or make submissions. Service on TELUS is to be effected by delivery to the solicitors for TELUS and BC TELECOM at the addresses set forth below.

AND NOTICE IS FURTHER GIVEN that, at the hearing and subject to the foregoing, TELUS Shareholders and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement to such shareholders. If you do not attend, either in person or by counsel, at that time, the Court may approve or refuse to approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice.

AND NOTICE IS FURTHER GIVEN that the Court, by an Interim Order dated December 7, 1998 has given directions as to the calling and holding of a special meeting of the TELUS Shareholders for the purpose of such shareholders voting upon the special resolution to approve the Arrangement and, in particular, has directed that the TELUS Shareholders shall have the right to dissent under the provisions of section 184 of the ABCA as modified by, and upon compliance with the terms of, the Interim Order.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any TELUS Shareholder or other interested party requesting the same by the undermentioned solicitors for TELUS or BC TELECOM upon written request delivered to such solicitors as follows:

Bennett Jones
Barristers and Solicitors
4500, 855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Attention: A.L. Friend, Q.C.
Counsel to TELUS

Farris, Vaughan, Wills & Murphy
Barristers and Solicitors
2600 - 700 West Georgia Street
Vancouver, B.C.
V7Y 1B3

Attention: J. Kenneth McEwan
Counsel to BC TELECOM

DATED at the City of Calgary, in the Province of Alberta, this 8th day of December, 1998.

TELUS Corporation

By: (signed) Kerry C. Day
Corporate Secretary

QUEBECOR MERRILL
CANADA INC
Printed in Canada